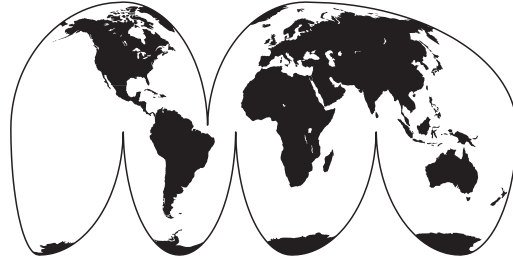


# WORLD MARK

## ENCYCLOPEDIA OF THE NATIONS

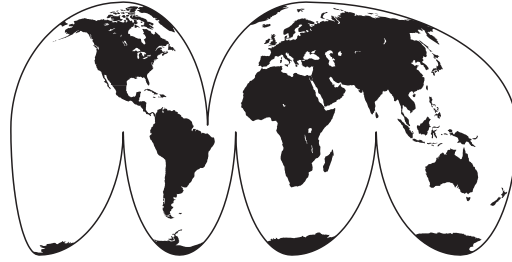


**WORLD MARK**  
**ENCYCLOPEDIA OF THE NATIONS**



**ASIA & OCEANIA**

# WORLDMARK ENCYCLOPEDIA OF THE NATIONS



## Volume 4 ASIA & OCEANIA





## Worldmark Encyclopedia of the Nations, Eleventh Edition

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# CONTENTS

For Conversion Tables, Abbreviations and Acronyms, Glossaries, World Tables, Notes to the Tenth Edition, and other supplementary materials, see Volume 1.

Guide to Country Articles.....	vi	Marshall Islands .....	423
Afghanistan .....	1	Micronesia, Federated States of .....	430
Australia .....	15	Mongolia .....	437
Azerbaijan .....	34	Myanmar .....	448
Bahrain .....	47	Nauru .....	463
Bangladesh .....	56	Nepal .....	470
Bhutan .....	71	New Zealand .....	486
Brunei Darussalam .....	82	Oman .....	503
Cambodia .....	91	Pakistan .....	512
China .....	108	Palau .....	531
Cyprus .....	138	Papua New Guinea .....	537
East Timor.....	150	Philippines .....	547
Fiji .....	158	Qatar .....	566
French Pacific Dependencies .....	167	Samoa .....	574
Hong Kong <i>see</i> China		Sa'udi Arabia .....	582
India .....	170	Singapore .....	595
Indonesia .....	196	Solomon Islands .....	609
Iran .....	219	Sri Lanka .....	616
Iraq .....	235	Syria .....	632
Israel .....	249	Taiwan .....	645
Japan .....	267	Tajikistan .....	660
Jordan .....	290	Thailand .....	671
Kazakhstan .....	303	Tonga .....	689
Kiribati .....	316	Turkey .....	697
Korea, Democratic People's Republic of .....	323	Turkmenistan .....	716
Korea, Republic of .....	338	Tuvalu .....	728
Kuwait .....	352	United Arab Emirates .....	734
Kyrgyzstan .....	362	United States Pacific Dependencies .....	744
Lao People's Democratic Republic.....	373	Uzbekistan .....	749
Lebanon .....	386	Vanuatu .....	759
Macau <i>see</i> China		Vietnam .....	767
Malaysia .....	398	Yemen .....	785
Maldives .....	415	Index to Countries.....	799

# 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.

## SECTION HEADINGS IN NUMERICAL ORDER

1	Location, size, and extent	27	Energy and power
2	Topography	28	Industry
3	Climate	29	Science and technology
4	Flora and fauna	30	Domestic trade
5	Environment	31	Foreign trade
6	Population	32	Balance of payments
7	Migration	33	Banking and securities
8	Ethnic groups	34	Insurance
9	Languages	35	Public finance
10	Religions	36	Taxation
11	Transportation	37	Customs and duties
12	History	38	Foreign investment
13	Government	39	Economic development
14	Political parties	40	Social development
15	Local government	41	Health
16	Judicial system	42	Housing
17	Armed forces	43	Education
18	International cooperation	44	Libraries and museums
19	Economy	45	Media
20	Income	46	Organizations
21	Labor	47	Tourism, travel, and recreation
22	Agriculture	48	Famous persons
23	Animal husbandry	49	Dependencies
24	Fishing	50	Bibliography
25	Forestry		
26	Mining		

## SECTION HEADINGS IN ALPHABETICAL ORDER

Agriculture	22	Income	20
Animal husbandry	23	Industry	28
Armed forces	17	Insurance	34
Balance of payments	32	International cooperation	18
Banking and securities	33	Judicial system	16
Bibliography	50	Labor	21
Climate	3	Languages	9
Customs and duties	37	Libraries and museums	44
Dependencies	49	Local government	15
Domestic trade	30	Location, size, and extent	1
Economic development	39	Media	45
Economy	19	Migration	7
Education	43	Mining	26
Energy and power	27	Organizations	46
Environment	5	Political parties	14
Ethnic groups	8	Population	6
Famous persons	48	Public finance	35
Fishing	24	Religions	10
Flora and fauna	4	Science and technology	29
Foreign investment	38	Social development	40
Foreign trade	31	Taxation	36
Forestry	25	Topography	2
Government	13	Tourism, travel, and recreation	47
Health	41	Transportation	11
History	12		
Housing	42		

## 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)

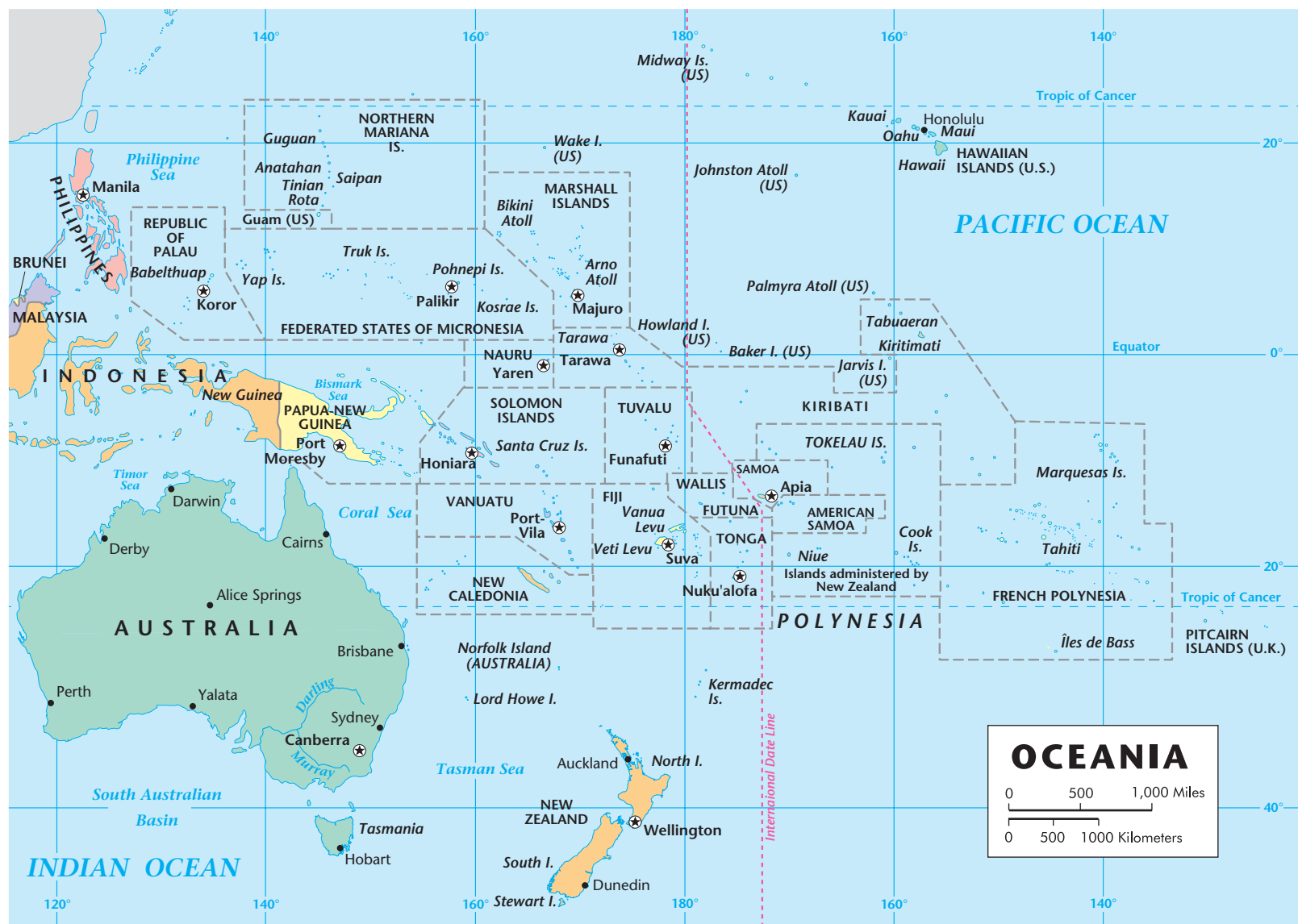
etc.—*et cetera* (and so on)  
 f—Fahrenheit  
 fl.—flourished  
 FRG—Federal Republic of Germany  
 ft—foot, feet  
 ft<sup>3</sup>—cubic foot, feet  
 GATT—General Agreement on Tariffs and Trade  
 GDP—gross domestic products  
 gm—gram  
 GMT—Greenwich Mean Time  
 GNP—gross national product  
 GRT—gross 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>.



**EAST & SOUTH ASIA**  
 0 250 500 750 1,000 Miles  
 0 250 500 750 1000 Kilometers

**MIDDLE EAST**  
 0 250 500 Miles  
 0 250 500 Kilometers

**OCEANIA**  
 0 500 1,000 Miles  
 0 500 1000 Kilometers

---

# AFGHANISTAN

Transitional Islamic State of Afghanistan

*Dowlat-e Eslami-ye Afghanistan*

**CAPITAL:** Kabul

**FLAG:** Three equal vertical bands of black (hoist), red, and green, with a white emblem centered on the red band; the emblem features a temple-like structure encircled by a wreath on the left and right and by a bold Islamic inscription above.

**ANTHEM:** *Eslabte Arzi (Land Reform)*, beginning “So long as there is the earth and the heavens.”

**MONETARY UNIT:** The afghani (AF) is a paper currency of 100 puls. There are coins of 25 and 50 puls and 1, 2, and 5 afghanis, and notes of 10, 20, 50, 100, 500, and 1,000 afghanis. Af1 = \$0.0211 (or \$1 = Af47.3) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, although some local units are still in use.

**HOLIDAYS:** Now Rooz (New Year’s Day), 21 March; May Day, 1 May; Independence Day, 18 August. Movable religious holidays include First Day of Ramadan, ‘Id al-Fitr, ‘Id al-‘Adha’, ‘Ashura, and Milad an-Nabi. The Afghan calendar year begins on 21 March; the Afghan year 1376 began on 21 March 1997.

**TIME:** 4:30 PM = noon GMT.

---

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

Afghanistan is a landlocked country in Central Asia with a long, narrow strip in the northeast (the Wakhan corridor). Afghanistan is slightly smaller than the state of Texas, with a total area of 647,500 sq km (250,001 sq mi), extending 1,240 km (770 mi) NE–SW and 560 km (350 mi) SE–NW. Afghanistan is bounded on the N by Turkmenistan, Uzbekistan, and Tajikistan, on the extreme NE by China, on the E and S by Pakistan, and on the W by Iran, with a total boundary length of 5,529 km (3,436 mi). Afghanistan’s capital city, Kabul, is located in the east central part of the country.

## <sup>2</sup>TOPOGRAPHY

Although the average altitude of Afghanistan is about 1,200 m (4,000 ft), the Hindu Kush mountain range rises to more than 6,100 m (20,000 ft) in the northern corner of the Wakhan panhandle in the northeast and continues in a southwesterly direction for about 970 km (600 mi), dividing the northern provinces from the rest of the country. Central Afghanistan, a plateau with an average elevation of 1,800 m (6,000 ft), contains many small fertile valleys and provides excellent grazing for sheep, goats, and camels. To the north of the Hindu Kush and the central mountain range, the altitude drops to about 460 m (1,500 ft), permitting the growth of cotton, fruits, grains, ground nuts, and other crops. Southwestern Afghanistan is a desert, hot in summer and cold in winter. The four major river systems are the Amu Darya (Oxus) in the north, flowing into the Aral Sea; the Harirud and Morghab in the west; the Helmand in the southwest; and the Kabul in the east, flowing into the Indus. There are few lakes.

## <sup>3</sup>CLIMATE

The ranges in altitude produce a climate with both temperate and semitropical characteristics, and the seasons are clearly marked throughout the country. Wide temperature variations are usual from season to season and from day to night. Summer temperatures in Kabul may range from 16° C (61° F) at sunrise to 38° C (100° F) by noon. The mean January temperature in Kabul is 0° C

(32° F); the maximum summer temperature in Jalalabad is about 46° C (115° F). There is much sunshine, and the air is usually clear and dry. Rainfall averages about 25 to 30 cm (10 to 12 in); precipitation occurs in winter and spring, most of it in the form of snow. Wind velocity is high, especially in the west.

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

There are over 3,000 plant species, including hundreds of varieties of trees, shrubs, vines, flowers, and fungi. The country is particularly rich in such medicinal plants as rue, wormwood, and asafetida; fruit and nut trees are found in many areas. Native fauna include the fox, lynx, wild dog, bear, mongoose, shrew, hedgehog, hyena, jerboa, hare, and wild varieties of cats, asses, mountain goats, and mountain sheep. Trout is the most common fish. There are more than 100 species of wildfowl and birds.

## <sup>5</sup>ENVIRONMENT

Afghanistan’s most significant ecological problems are deforestation, drought, soil degradation, and overgrazing. Neglect, scorched earth tactics, and the damage caused by extensive bombardments have destroyed previously productive agricultural areas, and more are threatened by tons of unexploded ordnance. Afghanistan has responded to the fuel needs of its growing population by cutting down many of its already sparse forests. Consequently, by late 2002, between 1 and 2% of Afghanistan’s land area was forest land. That represented a 33% decrease from 1979. A four-year drought in 2002 emptied rivers and irrigation canals. Another environmental threat is posed by returning refugees to Afghanistan, of which there were over 4 million in Pakistan, Iran, and other countries in 2002, who have migrated to Kabul and other larger cities instead of returning to destroyed villages and fields. This migration has placed stress on the infrastructure of those cities, causing increased pollution and worsening sanitation conditions.

By 2002, 11 species of mammals, 13 species of birds, and 4 plant species of were endangered. Endangered species in Afghanistan included the snow leopard, long-billed curlew, Argali sheep, musk deer, tiger, white-headed duck, Afghani brook salamander,



Kabul markhor, and the Siberian white crane. There were thought to be fewer than 100 snow leopards in 2002. The country's Caspian tigers have virtually disappeared. In 2002, there was one pair of Siberian white cranes, with one chick.

## 6 POPULATION

The population of Afghanistan in 2003 was estimated by the United Nations at 23,897,000, which placed it as number 46 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 43% of the population under 15 years of age. There were 107 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 3.88%, with the projected population for the year 2015 at 35,473,000. The population density in 2002 was 42 per sq km (110 per sq mi).

It was estimated by the Population Reference Bureau that 22% of the population lived in urban areas in 2001. The capital city, Kabul, had a population of 2,454,000 in that year. Other major population centers include Kandahār, 339,200; Mazār-e Sharif, 239,800; and Herāt, 166,600. According to the United Nations, the urban population growth rate for 2000–2005 was 6.9%. These figures are unreliable, however, because many city dwellers have left their urban homes for refuge in rural areas. Approximately 20% of the population is nomadic.

Two decades of near constant warfare make Afghanistan's population—never certain in any case—even more difficult to assess. As many as three million Afghans are estimated to have died, and an additional six million sought refuge in Pakistan, Iran, and elsewhere in the world during the worst of the fighting when thousands of Soviet troops were present. The last official census was taken in 1988.

## 7 MIGRATION

Due to the U.S.-led bombing campaign in 2001–2002 carried out against the Taliban regime, a large Afghan refugee population was created in surrounding countries. The Afghan refugee population in Pakistan in 2002 was approximately 3.7 million, and, in Iran and the west, an additional 1.6 million. In 2002, there were approximately 1 million internally displaced persons (IDP) within the country. Since early-2002, there were many spontaneous returnees, but the UN High Commissioner for Refugees (UNHCR) began assisting refugees to repatriate in February 2002. As of October, more than over 1.5 million had returned to their homes.

In mid-2002, there was a daily influx of homeless migrants into Kabul, approximately 300–400 families a day. Seventy percent of Kabul's population was living in illegal structures.

In the summer of 2001, the majority of the over 1 million internally displaced persons in Afghanistan had been driven off their land and into refugee camps by ongoing conflict and four years of drought. After September 11, 2001, the International Organization for Migration (IOM) began to deliver shelter and non-food supplies to help the IDPs survive the Afghan winter. It dispatched road convoys from Iran, Tajikistan, and Turkmenistan to destinations in Afghanistan, carrying blankets, winter clothing, tents, and other essential items. Following the winter, with the defeat of the Taliban and the beginning of the spring planting season, the IOM worked to return the IDPs to their villages from the refugee camps. The IDP families were offered wheat, seeds, blankets, soap, agricultural tools, and other items. In addition to the IOM and the UNHCR, the International Committee of the Red Cross and UNICEF have been heavily involved in repatriating refugees.

Underway in the country is also the Return of Qualified Afghans program, designed to bring back Afghan professionals living abroad to participate in rebuilding the country. The program had returned 227 people by mid-2002. A further 343 peo-

ple were identified to fill key jobs in ministries and nongovernmental organizations (NGOs).

## 8 ETHNIC GROUPS

About the middle of the second millennium BC, Indo-Aryans began to move into and through the present area of Afghanistan. Much later came other tribal groups from Central Asia—Pactyes (from whom the present-day name “Pashtoons” derives), Sakas, Kushans, Hephthalites, and others—and a procession of Iranians and Greeks. In the 7th century AD, Arabs arrived from the south, spreading the new faith of Islam. In the same century, Turks moved in from the north, followed in the 13th century by Mongols, and, finally, in the 15th century by Turko-Mongols. This multiplicity of movements made Afghanistan a loose conglomeration of racial and linguistic groups.

All citizens are called Afghans, but the Pashtoons (the name may also be written as “Pushtun” or “Pukhtun,” and in Pakistan as “Pathan”) are often referred to as the “true Afghans.” Numbering about 38% of the population in 2001, they are known to have centered in the Sulaiman range to the east; it is only in recent centuries that they moved into eastern and southern Afghanistan, where they now predominate. They have long been divided into two major divisions, the Durrani and the Ghilzais, each with its own tribes and subtribes.

The Tajiks, of Iranian stock, comprise nearly 25% of the population and are mainly concentrated in the north and northeast. In the central ranges are found the Hazaras (about 19%), who are said to have descended from the Mongols. To the north of the Hindu Kush, Turkic and Turko-Mongol groups were in the majority until 1940. Each of these groups is related to groups north of the Amu Darya and within the former USSR; among them are the Uzbeks, who number about 6% of the population. Other groups include the Aimaks, Farsiwans (Persians) and Brahiu. In the northeast are the Kafirs, or infidels. After their conversion to Islam at the end of the 19th century, they were given the name of Nuristanis, or “people of the light.”

## 9 LANGUAGES

Both Pashtu (or Pushtu) and Dari (Afghan Persian) are the official languages of the country. Pashtu is spoken by about 35% of the population while approximately 50% speak Dari. Although Pashtu has a literature of its own, Dari, the language spoken in Kabul, has been the principal language of cultural expression, of the government, and of business. Both Pashtu and Dari are written primarily with the Arabic alphabet, however, there are some modifications. The Hazaras speak their own dialect of Dari. The Turkic languages, spoken by 11% of the population, include Uzbek and Turkmen, and the Nuristanis speak some seven different dialects belonging to the Dardic linguistic group. There are about 30 minor languages, primarily Balochi and Pashai, spoken by some 4% of the population. Balochi belongs to the same linguistic group, as do several languages spoken in the high Pamirs. Bilingualism is common.

## 10 RELIGIONS

Almost all Afghans are Muslims. Approximately 84% are Sunnis; 15% are Shi'is; others comprise only 1%. The Pashtuns, most of the Tajiks, the Uzbeks, and the Turkmen are Sunnis, while the Hazaras are Shi'is. The country's small Hindu and Sikh population is estimated at less than 30,000. Before the 1978 Communist coup, Islam was the official religion of Afghanistan; in an effort to win over religious leaders, the Marxist regime set up a Department of Islamic Affairs in 1981 and began providing funds for new mosques and for the maintenance of old ones. Following the overthrow of the Communist regime, an Islamic State was again proclaimed.

In 1994 the Islamic militants who called themselves the Taliban—literally “the Seekers,” a term used to describe religious stu-



LOCATION: 29°28' to 38°30' N; 60°30' to 74°53' E. BOUNDARY LENGTHS: China, 76 kilometers (47 miles); Iran, 936 kilometers (582 miles); Pakistan, 2,430 kilometers (1,511 miles); Tajikistan, 1,206 kilometers (750 miles); Turkmenistan, 744 kilometers (463 miles); Uzbekistan, 137 kilometers (85 miles).

dents—began to impose their strict form of Islam observance in the areas that they controlled. The Taliban, composed mostly of Pashtoons, were puritanical zealots. Women were ordered to dress in strict Islamic garb and were banned from working or from going out of their houses unless accompanied by a male relative. Some men were forced to pray five times a day and grow full beards as a condition of employment in the government. Under the Taliban, repression of the Hazara ethnic group, who were predominantly Shi'is, was severe.

Since the fall of the Taliban in 2001, the 1964 constitution has been used as a basis for the definition of religious freedom and practices. The 1964 constitution proclaims Islam the "sacred religion of Afghanistan" and states that religious rites of the state shall be performed according to Hanafi doctrine. Religious toler-

ation for non-Muslims has been granted, according to the 1964 constitution and the 2001 Bonn Agreement.

### 11 TRANSPORTATION

Many roads were built in the years prior to 1979 to connect the principal cities and to open up formerly isolated areas. As of 2002, Afghanistan had an estimated 21,000 km (13,000 mi) of roads, of which 2,793 km (1,736 mi) were paved. Roads connect Kabul with most provincial capitals and with Peshawar in Pakistan through the Khyber Pass. The road from Herat to Mashhad in Iran was completed in 1971. The Salang Tunnel through the Hindu Kush, completed with Soviet assistance in 1964, considerably shortened the travel time between Kabul and northern Afghanistan. The tunnel was modernized in the mid-1980s. However, in May 1997 the Tajik leader, Ahmad Shah Masud, blew up

the southern entrance of the tunnel in an effort to trap the invading Taliban forces. It was reopened in January 2002. The Kandahar-Torghundi highway in the south was completed in 1965. In 2002 there were 35,000 passenger cars and 32,000 trucks and buses in use.

The Khyber Pass in Pakistan is the best known of the passes providing land access to Afghanistan. Transit arrangements with Iran provide an alternative route for its commercial traffic. However, the great bulk of the country's trade moves through the former USSR. At the same time, Afghanistan's highways are badly damaged from years of warfare and neglect. Land mines are buried on the sides of many roads. Over \$1.2 billion in international aid was pledged to rebuilding Afghanistan's highways in 2002.

The only railways in the country in 2001 were a 9.6-km (6-mi) spur from Gushgy, Turkmenistan to Towrghondi, a 15 km (9.3 mi) line from Termez, Uzbekistan to the Kheyderabad transshipment point on the south bank of the Amu Darya, and a short span into Spin Baldak in the southeast. There are no navigable rivers except for the Amu Darya, on Turkmenistan's border, which can carry steamers up to about 500 tons. In 2002, there were 46 airports, 10 of which had paved runways, and 2 heliports. Ariana Afghan Airlines is the national carrier. Most of Ariana Airlines planes were destroyed during the civil war in Afghanistan. Ariana lost six of its eight planes in US-led air strikes against the Taliban. Kabul's international airport reopened to international humanitarian and military flights in late January 2002 after the UN's Security Council lifted the ban early that month, and it began international flight service to Delhi soon after.

## <sup>12</sup>HISTORY

Afghanistan has existed as a distinct polity for less than three centuries. Previously, the area was made up of various principalities, usually hostile to each other and occasionally ruled by one or another conqueror from Persia and the area to the west or from central Asia to the north, usually on his way to India. These included the Persian Darius I in the 6th century BC, and 300 years later, Alexander the Great. As the power of his Seleucid successors waned, an independent Greek kingdom of Bactria arose with its capital at Balkh west of Mazar-i-Sharif, but after about a century it fell to invading tribes (notably the Sakas, who gave their name to Sakastan, or Sistan). Toward the middle of the 3rd century BC, Buddhism spread to Afghanistan from India, and for centuries prior to the beginning of the 9th century AD, at least half the population of eastern Afghanistan was Buddhist.

Beginning in the 7th century, Muslim invaders brought Islam to the region, and it eventually became the dominant cultural influence. For almost 200 years, Ghazni was the capital of a powerful Islamic kingdom, the greatest of whose rulers, Mahmud of Ghazni (r.997-1030), conquered most of the area from the Caspian to the Ganges. The Ghaznavids were displaced by the Seljuk Turks, who mastered Persia and Anatolia (eastern Turkey), and by the Ghorids, who, rising from Ghor, southeast of Herat, established an empire stretching from Herat to Ajmir in India. They were displaced in turn by the Turko-Persian rulers of the Khiva oasis in Transoxiana, who, by 1217, had created a state that included the whole of Afghanistan until it disintegrated under attack by Genghis Khan in 1219. His grandson Timur, also called "Timur the Lame" or Tamerlane, occupied all of what is now Afghanistan from 1365 to 1384, establishing a court of intellectual and artistic brilliance at Herat. The Timurids came under challenge from the Uzbeks, who finally drove them out of Herat in 1507. The great Babur, one of the Uzbek princes, occupied Kabul in 1504 and Delhi in 1526, establishing the Mughal Empire in which eastern Afghanistan was ruled from Delhi, Agra, Lahore, or Srinagar, while Herat and Sistan were governed as provinces of Persia.

In the 18th century, Persians under Nadir Shah conquered the area, and after his death in 1747, one of his military commanders, Ahmad Shah Abdali, was elected emir of Afghanistan. The formation of a unified Afghanistan under his emirate marks Afghanistan's beginning as a political entity. Among his descendants was Dost Muhammad who established himself in Kabul in 1826 and gained the emirate in 1835. Although the British defeated Dost in the first Afghan War (1838-42), they restored him to power, but his attempts and those of his successors to play off Czarist Russian interests against the British concerns about the security of their Indian Empire led to more conflict. In the second Afghan War (1877-79), the forces of Sher Ali, Dost's son, were defeated by the British, and his entire party, ousted. Abdur Rahman Khan, recognized as emir by the British in 1880, established a central administration, and supported the British interest in a neutral Afghanistan as a buffer against the expansion of Russian influence.

Intermittent fighting between the British and Pushtun tribes from eastern Afghanistan continued even after the establishment, in 1893, of a boundary (the Durand line) between Afghanistan and British India. An Anglo-Russian agreement concluded in 1907 guaranteed the independence of Afghanistan (and Tibet) under British influence, and Afghanistan remained neutral in both World Wars. Afghan forces under Amanullah Khan, who had become emir in 1919, briefly intruded across the Durand Line in 1919. At the end of brief fighting—the third Afghan War—the Treaty of Rawalpindi (1919) accorded the government of Afghanistan the freedom to conduct its own foreign affairs.

Internally, Amanullah's Westernization program was strongly opposed, forcing him to abdicate in 1929. After a brief civil war, a tribal assembly chose Muhammad Nadir Shah as king. In his brief four years in power, he restored peace while continuing Amanullah's modernization efforts at a more moderate pace. Assassinated in 1933, he was succeeded by his son, Muhammad Zahir Shah, who continued his modernization efforts, governing for 40 years, even though sharing effective power with his uncles and a first cousin, who served as his prime ministers.

In the 1960s, there was considerable tension between Pakistan and Afghanistan as a result of Afghanistan's effort to assert influence among, and ultimately responsibility for, Pushtu-speaking Pathan tribes living on both sides of the Durand Line under a policy calling for the establishment of an entity to be called "Push-tunistan." The border was closed several times during the following years, and relations with Pakistan remained generally poor until 1977.

In 1964, a new constitution was introduced, converting Afghanistan into a constitutional monarchy, and a year later the country's first general election was held. In July 1973, Muhammad Daoud Khan, the king's first cousin and brother-in-law, who had served as prime minister from 1953 until early 1963, seized power in a near-bloodless coup, establishing a republic and appointing himself president, and prime minister of the Republic of Afghanistan. He exiled Zahir Shah and his immediate family, abolished the monarchy, dissolved the legislature, and suspended the constitution. Daoud ruled as a dictator until 1977, when a republican constitution calling for a one-party state was adopted by the newly convened Loya Jirga (Grand National Assembly), which then elected Daoud president for a six-year term.

### Afghanistan Under Communist Rule

On 27 April 1978, Daoud was deposed and executed in a bloody coup (the "Saur Revolution" because it took place during the Afghan month of Saur), and the Democratic Republic of Afghanistan emerged. Heading the new Revolutionary Council was Nur Muhammad Taraki, secretary-general of the communist People's Democratic Party of Afghanistan (PDPA), assisted by Babrak Karmal and Hafizullah Amin, both named deputy prime ministers. The former Soviet Union immediately established ties with

the new regime, and in December 1978, the two nations concluded a treaty of friendship and cooperation. Soon after the coup, rural Afghan groups took up arms against the regime, which increasingly relied on Soviet arms for support against what came to be known as mujahidin, or holy warriors.

Meanwhile, the Khalq (masses) and Parcham (flag) factions of the PDPA, which had united for the April takeover, became embroiled in a bitter power struggle within the party and the government. In September 1979, Taraki was ousted and executed by Amin, who had beat out Karmal to become prime minister the previous March and who now assumed Taraki's posts as president and party leader. Amin was himself replaced on 27 December by Karmal, the Parcham faction leader. This last change was announced not by Radio Kabul but by Radio Moscow and was preceded by the airlift of 4,000 to 5,000 Soviet troops into Kabul on 25–26 December, purportedly at the request of an Afghan government whose president, Hafizullah Amin, was killed during the takeover.

The Soviet presence increased to about 85,000 troops in late January 1980, and by spring, the first clashes between Soviet troops and the mujahidin had occurred. Throughout the early and mid-1980s, the mujahidin resistance continue to build, aided by Afghan army deserters and arms from the United States, Pakistan, and the nations of the Islamic Conference Organization (ICO). Much of the countryside remained under mujahidin control as the insurgency waged on year by year, while in Kabul, Soviet advisers assumed control of most Afghan government agencies.

By late 1987, more than a million Afghans had lost their lives in the struggle, while the United Nations High Commission for Refugees (UNHCR) estimated that some 5 million others had sought refuge in Pakistan, Iran, and elsewhere. Soviet sources at the time acknowledged Soviet losses of between 12,000 and 30,000 dead and 76,000 wounded. Soviet troop strength in Afghanistan at the end of 1987 was about 120,000, while according to Western sources, Afghan resistance forces numbered nearly 130,000.

In early 1987, Babrak Karmal fled to Moscow after being replaced as the head of the PDPA in May 1986 by Najibullah, former head of the Afghan secret police. Najibullah offered the mujahidin a ceasefire and introduced a much publicized national reconciliation policy; he also released some political prisoners, offered to deal with the resistance leaders, and promised new land reform. The mujahidin rejected these overtures, declining to negotiate for anything short of Soviet withdrawal and Najibullah's removal.

International efforts to bring about a political solution to the war—including nearly unanimous General Assembly condemnations of the Soviet presence in Afghanistan—were pursued within the UN framework from 1982 onward. Among these efforts were “proximity talks” between Afghanistan and Pakistan conducted by a Special Representative of the UN Secretary General, Under Secretary-General Diego Cordovez. After a desultory beginning, these talks began to look promising in late 1987 and early 1988 when Soviet policymakers repeatedly stated, in a major policy shift, that the removal of Soviet troops from Afghanistan was not contingent on the creation of a transitional regime acceptable to the former USSR. On 14 April 1988, documents were signed and exchanged in which the USSR agreed to pull its troops out of Afghanistan within nine months, the US reserved the right to continue military aid to Afghan guerrillas as long as the USSR continued to aid the government in Kabul, and Pakistan and Afghanistan pledged not to interfere in each other's internal affairs.

The Russians completed the evacuation of their forces on schedule 15 February 1989, but in spite of continuing pressure by the well-armed mujahidin, the Najibullah government remained

in power until April 1992, when Najibullah sought refuge at the UN office in Kabul as mujahidin forces closed in on the city.

### Afghanistan After the Soviet Withdrawal

With the fall of the Najibullah government, the Seven-Party Alliance (SPA) of the Islamic groups based in Pakistan moved to consolidate its “victory” by announcing plans to set up an Interim Afghan Government (AIG) charged with preparing the way for elections. Meanwhile, they moved to assert their control of Afghanistan, but their efforts to establish the AIG in Kabul failed when within ten days of Najibullah's departure from office, well-armed forces of the Hizb-i-Islami and Jamiat-i-Islami—two of the seven SPA parties—clashed in fighting for the control of the capital. In July, Jamiat leader Burhanuddin Rabbani replaced Sibghatullah Mojaddedi as president of the AIG, as previously agreed by all the SPA parties but the Hizb-i-Islami.

Continued fighting between Jamiat and Hizb-i-Islami militias halted further progress, and Rabbani's forces, under Commander Ahmad Shah Masoud, dug in to block those under the control of interim “Prime Minister” Gulbuddin Hekmatyar's Hizb-i-Islami and his ally, General Rashid Dostum (a former PDPA militia leader turned warlord from northern Afghanistan), from taking control of Kabul. In a 24-hour rocket exchange in August 1992 in Kabul, an estimated 3000 Afghans died, and before the end of the year, upwards of 700,000 Afghans had fled the city. Deep differences among the SPA/AIG leadership, embittered by decades of bad blood, ethnic distrust, and personal enmity, prevented any further progress toward creating a genuine interim government capable of honoring the 1992 SPA pledge to write a constitution, organize elections, and create a new Afghan polity. Despite UN attempts to broker a peace and bring the warring groups into a coalition government, Afghanistan remained at war.

### Rise of the Taliban

By the summer of 1994 Rabbani and his defense minister, Ahmed Shah Masoud, were in control of the government in Kabul, but internal turmoil caused by the warring factions had brought the economy to a standstill. It was reported that on the road north of Kandahar a convoy owned by influential Pakistani businessmen was stopped by bandits demanding money. The businessmen appealed to the Pakistani government, which responded by encouraging Afghan students from the fundamentalist religious schools on the Pakistan-Afghan boarder to intervene. The students freed the convoy and went on to capture Kandahar, Afghanistan's second-largest city. Pakistan's leaders supported the Taliban with ammunition, fuel, and food. The students, ultra-fundamentalist Sunni Muslims who called themselves the Taliban (the Arabic word for religious students, literally “the Seekers”) shared Pashtun ancestry with their Pakistani neighbors to the south. The Taliban also found widespread support among Afghan Pashtuns hostile to local warlords and tired of war and economic instability. By late 1996, the Taliban had captured Kabul, the capital, and were in control of 21 of Afghanistan's 32 provinces. When Rabbani fled the capital, Pakistan and Saudi Arabia officially recognized the Taliban government in Kabul. In areas under Taliban control, order was restored, roads opened, and trade resumed. However, the Taliban's reactionary social practices, justified as being Islamic, did not appeal to Afghanistan's non-Pashtun minorities in the north and west of the country, nor to the educated population generally. The opposition, dominated by the Uzbek, Tajik, Hazara, and Turkoman ethnic groups, retreated to the northeastern provinces.

In May 1997 the Taliban entered Mazar-i-Sharif, Afghanistan's largest town north of the Hindu Kush and stronghold of Uzbek warlord Rashid Dostum. In the political intrigue that followed, Dostum was ousted by his second in command, Malik Pahlawan, who initially supported the Taliban. Dostum reportedly fled to Turkey. Once the Taliban were in the city, however, Pahlawan

abruptly switched sides. In the subsequent fighting, the Taliban were forced to retreat with heavy casualties. The forces of Ahmad Shah Masoud, Tajik warlord and former defense minister in ousted President Rabbani's government, were also instrumental in the defeat of the Taliban in Mazar. Masoud controlled the high passes of the Panjshir Valley in the east of the country. The opposition alliance was supported by Iran, Russia, and the Central Asian republics, who feared that the Taliban might destabilize the region.

By early 1998, the Taliban militia controlled about two-thirds of Afghanistan. Opposition forces under Ahmad Shah Masoud controlled the northeast of the country. Taliban forces mounted another offensive against their opponents in August-September 1998 and nearly sparked a war with neighboring Iran after a series of Shiite villages were pillaged and Iranian diplomats killed. Iran, which supplied Masoud's forces, countered by massing troops along its border with Afghanistan. Although the crisis subsided, tensions between the Taliban and Iran remained high. Masoud's opposition forces became known as the United Front or Northern Alliance in late 1999.

Despite attempts to broker a peace settlement, fighting between the Taliban and opposition factions continued through 1999 and into 2000 with the Taliban controlling 90% of the country. In March 1999, the warring factions agreed to enter a coalition government, but by July these UN-sponsored peace talks broke down and the Taliban renewed its offensive against opposition forces. By October, the Taliban captured the key northern city of Taloqan and a series of northeastern towns, advancing to the border with Tajikistan. Fighting between the Taliban and Northern Alliance forces was fierce in early 2001.

In April 2001, Masoud stated that he did not rule out a peace dialogue with the Taliban, or even of setting up a provisional government jointly with the Taliban, but that Pakistan would have to stop interfering in the conflict first. He stated that elections would have to be held under the aegis of the UN and the "six plus two" countries, including Iran, China, Pakistan, Tajikistan, Turkmenistan, as well as Russia and the US. The Northern Alliance was receiving financial and military assistance from its old enemy Russia as well as from Iran. In addition to Pakistan, the Taliban was recognized as the legitimate government of Afghanistan by Saudi Arabia and the United Arab Emirates. Masoud was assassinated on 9 September 2001, by two men claiming to be Moroccan journalists. His killers are thought to have been agents of al-Qaeda acting in concert with the plotters of the 11 September 2001 attack on the World Trade Center in New York and the Pentagon in Washington, D.C.

### Post-11 September 2001

The 11 September 2001 attacks carried out against the US by members of al-Qaeda marked the beginning of a war on terrorism first directed against the Taliban for harboring Osama bin Laden and his forces. On 7 October 2001, US-led forces launched the bombing campaign Operation Enduring Freedom against the Taliban and al-Qaeda in Afghanistan. On 13 November the Taliban were removed from power in Kabul, and an interim government under the leadership of Hamid Karzai, a Pashtun leader from Kandahar, was installed on 22 December. The campaign continued, however, into 2002. In June 2002, a Loya Jirga, or Grand Assembly of traditional leaders, was held, and Karzai was elected head of state of a transitional government that would be in place for 18 months until elections could be held. More than 60% of the cabinet posts in the government went to Ahmed Shah Masoud's Northern Alliance. Masoud was officially proclaimed the national hero of Afghanistan on 25 April 2002. A special committee collected signatures to award the Nobel Prize to Masoud posthumously. Among those who signed the petition were Czech President Vaclav Havel, American writer Elie Wiesel, and deputies of the European Parliament. On 5 September 2002,

Karzai survived an assassination attempt, and another plot against him was thwarted on 22 November. As of April 2003, more than 10,000 coalition forces, led by 8,000 US troops, were engaged in fighting remnants of the Taliban, al-Qaeda forces, and former mujahidin commander Gulbuddin Hekmatyar, in the eastern and southern regions of Afghanistan.

## 13 GOVERNMENT

Between 1964 and 1973, Afghanistan was a constitutional monarchy, for the first time in its history. The head of government was the prime minister, appointed by the king and responsible to the bicameral legislature. This system gave way to a more traditional authoritarian system on 17 July 1973, when Afghanistan became a republic, headed by Muhammad Daoud Khan, who became both president and prime minister. A new constitution in 1977 created a one-party state with a strong executive and a weak bicameral legislature. The communist PDPA abrogated this constitution after they seized power in April 1978.

Between 1978 and 1980, a communist-style 167-member Revolutionary Council exercised legislative powers. The chief of state (president) headed the presidium of that council, to which the 20-member cabinet was formally responsible. A provisional constitution, introduced in April 1980, guaranteed respect for Islam and national traditions, condemned colonialism, imperialism, Zionism, and fascism, and proclaimed the PDPA as "the guiding and mobilizing force of society and state." Seven years later, a new constitution providing for a very strong presidency was introduced as part of the PDPA's propaganda campaign of "national reconciliation." Najibullah remained as president until April 1992 when he sought refuge at the UN office in Kabul as mujahidin forces closed in on the city.

With the fall of the Najibullah government a Seven Party Alliance (SPA) of the Islamic groups announced plans to set up an Interim Afghan Government (AIG) charged with preparing the way for elections. However, Professor Burhanuddin Rabbani co-opted the process by forming a leadership council that elected him president. Subsequent fighting among warring factions plunged the country into anarchy and set the stage for the emergence of the ultra-conservative Islamic movement, Taliban, which ousted the Rabbani government and as of mid-2000 controlled all but the northern most provinces of the country. No new constitution was drafted since the end of the Najibullah government.

The Taliban, led by Mullah Mohammed Omar, formed a six-member ruling council in Kabul which ruled by edict. Ultimate authority for Taliban rule rested in the Taliban's inner Shura (Assembly), located in the southern city of Kandahar, and in Mullah Omar.

With the fall of the Taliban in December 2001, an interim government was created under the leadership of Hamid Karzai by an agreement held in Bonn, Germany. He was elected head of state in June 2002 of the "Islamic Transitional Government of Afghanistan (ITGA)," by the Loya Jirga convened that month. He named an executive cabinet, dividing key ministries between ethnic Tajiks and Pashtuns. He also appointed three deputy presidents and a chief justice to the country's highest court. Elections for a new government were scheduled for 2003.

## 14 POLITICAL PARTIES

Political parties have usually been illegal in Afghanistan, forcing most political activity—influenced by ideological, linguistic, and ethnic considerations—to operate underground or from abroad (or both). The 1964 constitution provided for the formation of political parties. However, since the framers of the constitution decided that political parties should be permitted only after the first elections, and since the Parliament never adopted a law governing the parties' operation, all candidates for the parliamentary elections of August and September 1965 stood as independents. Because a law on political parties was not on the books four years

later, the 1969 elections were also contested on a non-party basis. Throughout the 1964–1973 period, however, the de facto existence of parties was widely recognized. Subsequently, the framers reversed their plan to allow political parties. Under the 1977 constitution, only the National Revolutionary Party (NRP), the ruler's chosen instrument, was allowed.

The 1978 coup was engineered by the illegal People's Democratic Party of Afghanistan (PDPA) which had been founded in 1965. During its brief history, this Marxist party had been riven by a bloody struggle between its pro-Soviet Parcham (flag) faction and its larger Khalq (masses) faction. Babrak Karmal was the leader of the Parcham group, while the Khalq faction was headed until 1979 by Nur Muhammad Taraki and Hafizullah Amin. The factional struggle continued after the 1978 coup, prompting the Soviet intervention of 1979. Factional bloodletting continued thereafter also, with repeated purges and assassinations of Khalq adherents as well as bitter infighting within Parcham, this last leading to Babrak Karmal's replacement as PDPA secretary-general in May 1986 by Najibullah.

The Islamic resistance forces opposing the PDPA government and its Soviet backers in Afghanistan represented conservative, ethnically-based Islamic groups which themselves have had a long history of partisan infighting (and repression by successive Kabul governments). They came together in the early 1980s to fight the common enemy, the communist PDPA and the Soviet invaders and, in 1985, under pressure from Pakistan and the United States, they were loosely united into a Seven Party Alliance (SPA), headquartered in Peshawar, Pakistan. By 1987, commando groups affiliated with one or more of these seven parties controlled more than 80% of the land area of Afghanistan.

With arms flowing in from outside the country—a flow not halted until the end of 1991—the fighting continued, but with the final withdrawal of Soviet troops in February 1989, the SPA stepped up its military and political pressure on the communist PDPA government. However, President Najibullah proved to have more staying power than previously estimated, using Soviet arms supplies, which continued until the end of 1991 to buttress his position, while playing upon divisions among the resistance, embracing nationalism and renouncing communism, and even changing the name of the PDPA to the Wattan (Homeland) Party. It was only in April 1992, with the Soviet Union now history, his army defecting from beneath him, and the mujahidin closing on Kabul that he sought refuge at the UN office in the capital, leaving the city in the hands of the rival ethnic and regional mujahidin militias.

The leaders of the mujahidin groups agreed to establish a leadership council. This council quickly came under the control of Professor Burhanuddin Rabbani who was subsequently elected President by the council. Fighting broke out in August 1992 in Kabul between forces loyal to President Rabbani and rival factions. A new war for the control of Afghanistan had begun.

On September 26–27, 1996, the Pashtun-dominated ultra-conservative Islamic Taliban movement captured the capital of Kabul and expanded its control to over 90% of the country by mid-2000. The Taliban were led by Mullah Mohammed Omar. Ousted President Rabbani, a Tajik, and his defense minister Ahmad Shah Masoud relocated to Takhar in the north. Rabbani claimed that he remained the head of the government. His delegation retained Afghanistan's UN seat after the General Assembly deferred a decision on Afghanistan's credentials. Meanwhile, the Taliban removed the ousted PDPA leader Najibullah from the UN office in Kabul, tortured and shot him, and hung his body prominently in the city. General Rashid Dostum, an ethnic Uzbek, controlled several north-central provinces until he was ousted on 25 May 1997 by his second in command Malik Pahlawan. Dostum fled to Turkey, but he returned that October. The Shia Hazara community, led by Abdul Karim Khalili, retained control of a small portion of the center of the country.

After the fall of the Taliban, various warlords, leaders, and political factions emerged in Afghanistan. Dostum, as head of Jumbish-e Melli Islami (National Islamic Movement), consolidated his power in Mazar-i-Sharif. He was named interim deputy defense minister for the transitional government in 2002. Rabbani, as nominal head of the Northern Alliance, is also the leader of Jamiat-e-Islami, the largest political party in the alliance. Ismail Khan, a Shiite warlord of Tajik origin earned a power base in the western city of Herat by liberating it from Soviet control, and for a time in the '90s, kept it from Taliban control. Khan is thought to be receiving backing from Iran. Abdul Karim Khalili is the leader of the Hezb-e-Wahdat (Unity Party) and the top figure in the Shia Hazara minority. Wahdat is the main benefactor of Iranian support, and the second most-powerful opposition military party. Gulbuddin Hekmatyar, the most notorious of the warlords who emerged from the fight against Soviet occupation, leads the party Hezb-e Islami. Pir Syed Ahmed Gailani is a moderate Pashtun leader and wealthy businessman who is also the spiritual leader of a minority Sufi Muslim group. Gailani is supported by pro-royalist Pashtuns and Western-educated elites of the old regime. He has called for an Islamic constitutional republic. Former King Zahir Shah, who said he had no intention of returning to power, volunteered to help build a power-sharing administration for the country. Shah is a Pashtun. Younis Qanooni, an ethnic Tajik, who was named Interior Minister for the interim government, was also the interior minister in the country's previous interim administration, in 1996, before the Taliban came to power, and has opposed the presence of U.N. peacekeepers in Afghanistan. And Abdullah Abdullah, of the Northern Alliance, was a close friend of Ahmad Shah Masoud. Like Masoud, Abdullah is from the Tajik heartland of the Panshir Valley, but his mother is Pashtun. He has been seen as less willing to relinquish the Northern Alliance's grip on power.

## 15 LOCAL GOVERNMENT

Afghanistan was traditionally divided into provinces governed by centrally appointed governors with considerable autonomy in local affairs. There are currently 32 provinces. During the Soviet occupation and the development of country-wide resistance, local areas came increasingly under the control of mujahidin groups that were largely independent of any higher authority; local commanders, in some instances, asserted a measure of independence also from the mujahidin leadership in Pakistan, establishing their own systems of local government, collecting revenues, running educational and other facilities, and even engaging in local negotiations. Mujahidin groups retained links with the Peshawar parties to ensure access to weapons that were doled out to the parties by the government of Pakistan for distribution to fighters inside Afghanistan.

The Taliban set up a *shura* (assembly), made up of senior Taliban members and important tribal figures from the area. Each *shura* made laws and collected taxes locally. The Taliban set up a provisional government for the whole of Afghanistan, but it did not exercise central control over the local *shuras*.

The process of setting up the transitional government in June 2002 by the Loya Jirga took many steps involving local government. First, at the district and municipal level, traditional *shura* councils met to pick electors—persons who cast ballots for Loya Jirga delegates. Each district or municipality had to choose a predetermined number of electors, based on the size of its population. The electors then traveled to regional centers and cast ballots, to choose from amongst themselves a smaller number of loya jirga delegates—according to allotted numbers assigned to each district. The delegates then took part in the Loya Jirga.

The warlords who rule various regions of the country exert local control. The transitional government is attempting to integrate local governing authorities with the central government, but it lacks the loyalty from the warlords necessary to its governing

authority. More traditional elements of political authority—such as Sufi networks, royal lineage, clan strength, age-based wisdom, and the like—still exist and play a role in Afghan society. Karzai is relying on these traditional sources of authority in his challenge to the warlords and older Islamist leaders. The deep ethnic, linguistic, sectarian, tribal, racial, and regional cleavages present in the country create what is called “Qawm” identity, emphasizing the local over higher-order formations. Qawm refers to the group to which the individual considers himself to belong, whether a subtribe, village, valley, or neighborhood. Local governing authority relies upon these forms of identity and loyalty.

## 16 JUDICIAL SYSTEM

Under the Taliban, there was no rule of law or independent judiciary. Ad hoc rudimentary judicial systems were established based on Taliban interpretation of Islamic law. Murderers were subjected to public executions and thieves had a limb or two (one hand, one foot) severed. Adulterers were stoned to death in public. Taliban courts were said to have heard cases in sessions that lasted only a few minutes. Prison conditions were poor and prisoners were not given food. Normally, this was the responsibility of the prisoners’ relatives who were allowed to visit to provide them with food once or twice a week. Those who had no relatives had to petition the local council or rely on other inmates.

In non-Taliban controlled areas, many municipal and provincial authorities relied on some form of Islamic law and traditional tribal codes of justice. The administration and implementation of justice varied from area to area and depended on the whims of local commanders or other authorities, who could summarily execute, torture, and mete out punishments without reference to any other authority.

As of 2002, Afghanistan's judicial system was fragmented, with conflicts between such core institutions as the Ministry of Justice, Supreme Court, and attorney general's office. In addition, the judicial system's infrastructure was destroyed; the absence of adequate court or ministry facilities, basic office furniture, and minimal supplies made substantive progress difficult. There are also tensions between religious and secular legal training with regard to appointments of new judicial personnel. Until Afghanistan's new constitution is adopted, the country's basic legal framework will consist of its 1964 constitution and existing laws and regulations to the extent that they accord with the Bonn Agreement of 2001 and with international treaties to which Afghanistan is a party. The Ministry of Justice is charged with compiling current Afghan laws and assessing their compatibility with international standards. However, texts of Afghan laws are largely unavailable, even among attorneys, judges, law faculty, and government agencies such as the Ministry of Justice. While in power, the Taliban burned law books. There was no adequate law library in the country as of June 2002.

## 17 ARMED FORCES

Weapons information dates back to 1992, at which time there were SU-17, MiG21, and Mi-8 combat aircraft in the country. In 1998, defense spending was estimated at \$250 million or 14.7% of GDP. In 2002, the US was leading the efforts in creation of a national army. The international community as a whole made commitments to helping Afghanistan build security institutions. In 2002, Afghanistan requested \$235 million from the UN for 60,000 men for the land army, 8000 for the airforce, and 12,000 border guards. Most of the army's infrastructure, barracks, and depots were destroyed along with the Taliban.

## 18 INTERNATIONAL COOPERATION

Afghanistan has been a member of the UN since 19 November 1946. Afghanistan also belongs to the Asian Development Bank, the Colombo Plan, the Economic and Social Commission for Asia

and the Pacific (ESCAP), the G-77, the Islamic Development Bank (IDB), and the Organization of the Islamic Conference.

## 19 ECONOMY

Afghanistan's economy has been devastated by over 20 years of war. Hampered by an unintegrated economy until relatively late in the post-World War II period, only in the 1950s did the building of new roads begin to link the country's commercial centers with the wool and fruit-producing areas. Largely agricultural and pastoral, the country is highly dependent on farming and livestock raising (sheep and goats). In Afghanistan, 85 percent of the people are engaged in agriculture. Industrial activity includes small-scale production of textiles, soap, furniture, shoes, fertilizer, cement, and handwoven carpets. The country has valuable mineral resources, including large reserves of iron ore at Hajigak discovered before the 2-decade old war, but only coal, salt, lapis lazuli, barite, and chrome are available to be exploited. The discovery of large quantities of natural gas in the north, for which a pipeline to the former USSR was completed in 1967, increased the country's export earnings, at least until escalation of civil strife in the late 1970s and 1980s.

Since the outbreak of war in the late 1970s, economic data have been contradictory and of doubtful reliability. In September 1987, the Afghan foreign minister asserted that 350 bridges and 258 factories had been destroyed since the fighting began in 1979. By the early 1990s, two-thirds of all paved roads were unusable, and the countryside appeared severely depopulated, with more than 25% of the population—twice the prewar level—residing in urban areas. What little is left of the country's infrastructure has been largely destroyed due first to the war, and then to the US-led bombing campaign. Severe drought added to the nation's difficulties in 1998-2001. The majority of the population continues to suffer from insufficient food, clothing, housing, and medical care, problems exacerbated by military operations and political uncertainties. The presence of an estimated 10 million land mines has also hindered the ability of Afghans to engage in agriculture or other forms of economic activity. Inflation remains a serious problem.

Opium poppy cultivation is the mainstay of the economy. Major political factions in the country profit from the drug trade. In 1999, encouraged by good weather and high prices, poppy producers had increased the area under cultivation by 43 percent and harvested a bumper crop—a record 4,600 tons, compared with 2,100 tons the year before. A ban on poppy production cut cultivation in 2001 by 97% to 1695 hectares (4188 acres), with a potential production of 74 tons of opium. Afghanistan is a major source of hashish, and there are many heroin-processing laboratories throughout the country.

International efforts to rebuild Afghanistan were addressed at the Tokyo Donors Conference for Afghan Reconstruction in January 2002, when \$4.5 billion was collected for a trust fund to be administered by the World Bank. Priority areas for reconstruction included the construction of education, health, and sanitation facilities, enhancement of administrative capacity, the development of the agricultural sector, and the rebuilding of road, energy, and telecommunication links.

## 20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2000 Afghanistan's gross domestic product (GDP) was estimated at \$21 billion. The per capita GDP was estimated at \$800. 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 60% of GDP, industry 20%, and services 20%. Foreign aid receipts amounted to about \$15 per capita.

## 21 LABOR

Afghanistan's labor force is estimated at 10 million. As of 2002, 85% of the economically active population was engaged in agriculture. The textile industry is the largest employer of industrial labor; weaving of cloth and carpets is the most important home industry. In 1978, the government established the Central Council of Afghanistan Trade Unions in order to develop the trade union movement. In the mid-1980s, the council had some 285,000 members. Under the Taliban, the government did not have the means to enforce worker rights, as there was no functioning constitution or legal framework that defined them. Little was known about labor laws and practices under Taliban rule. There is no information pertaining to minimum wages or work hours and conditions. The vast majority of workers are in the informal economy. Children as young as six years old are reportedly working to help sustain their families.

## 22 AGRICULTURE

About 12% of the land is arable and less than 6% currently is cultivated. Normally, Afghanistan grew about 95% of its needs in wheat and rye, and more than met its needs in rice, potatoes, pulses, nuts, and seeds; it depended on imports only for some wheat, sugar, and edible fats and oils. Fruit, both fresh and preserved (with bread), is a staple food for many Afghans. Agricultural production, however, is a fraction of its potential. Agricultural production is constrained by an almost total dependence on erratic winter snows and spring rains for water; irrigation is primitive. Relatively little use is made of machines, chemical fertilizer, or pesticides.

The variety of the country's crops corresponds to its topography. The areas around Kandahar, Herat, and the broad Kabul plain yield fruits of many kinds. The northern regions from Takhar to Badghis and Herat and Helmand provinces produce cotton. Corn is grown extensively in Paktia and Nangarhar provinces, and rice mainly in Kunduz, Baghlan, and Laghman provinces. Wheat is common to several regions, and makes up 80% of all grain production. Aggregate wheat production in 2002 was estimated at 2.69 million tons, some 67 percent more than was achieved in 2001. Following wheat, the most important crops in 2000 were barley (74,000 tons) corn (115,000 tons), rice (232,800 tons), potatoes (235,000 tons), and cotton. Nuts and fruit, including pistachios, almonds, grapes, melons, apricots, cherries, figs, mulberries, and pomegranates are among Afghanistan's most important exports.

Agricultural products accounted for about 53% of Afghanistan's exports in 2001, of which fruits and nuts were a large portion. In some regions, agricultural production had all but ceased due to destruction caused by the war and the migration of Afghans out of those areas. A law of May 1987 relaxed the restrictions on private landowning set in 1978: the limit of permitted individual holding was raised from 6 to 18 hectares (from 15 to 45 acres). Opium and hashish are also widely grown for the drug trade. Opium is easy to cultivate and transport and offers a quick source of income for impoverished Afghans. Afghanistan was the world's largest producer of raw opium in 1999 and 2000. In 2000 the Taliban banned opium poppy cultivation but failed to destroy the existing stockpile and presumably benefited substantially from resulting price increases. Later, in 2001, the Taliban reportedly announced that poppy cultivation could resume. Much of Afghanistan's opium production is refined into heroin and is either consumed by a growing South Asian addict population or exported, primarily to Europe. Replacing the poppy industry is a goal of the Karzai administration.

## 23 ANIMAL HUSBANDRY

The availability of land suitable for grazing has made animal husbandry an important part of the economy. Natural pastures cover

some 3 million hectares (7.4 million acres) but are being overgrazed. The northern regions around Mazar-i-Sharif and Maymanah were the home range for about 6 million karakul sheep in 1998.

The output of livestock products in 1998, as projected by the FAO, included 300,000 tons of cows' milk, 201,000 tons of sheep's milk, 41,000 tons of goats' milk, 18,000 tons of eggs, 16,000 tons of wool (greasy basis), and 16,000 tons of sheep- and goatskins. Much of Afghanistan's livestock was removed from the country by early waves of refugees who fled to Pakistan and Iran. Total meat output in 2000 was 356,840 tons.

In 2001, the livestock population in Afghanistan had declined by about 40 percent since 1998. In 2002, this figure was estimated to have declined further to 60 percent. An FAO survey done in the Northern Regions during the spring of 2002 showed that in four provinces (Balkh, Juzjan, Saripol and Faryab), there was a loss of about 84 percent of cattle (1997/98: 224,296 head; 2002: 36,471 head) and around 80 percent of sheep and goats (1997/98: 1,721,021 head; 2002: 359,953 head).

## 24 FISHING

Some fishing takes place in the lakes and rivers, but fish does not constitute a significant part of the Afghan diet. Using explosives for fishing or so-called dynamite fishing is a trend that has become very popular since the 1980's and is common practice in the country. The annual catch was about 1,000 tons in 2000.

## 25 FORESTRY

Afghanistan's timber has been greatly depleted, and since the mid-1980s, only about 3% of the land area has been forested, mainly in the east. Significant stands of trees have been destroyed by the ravages of the war. Exploitation has been hampered by lack of power and access roads. Moreover, the distribution of the forest is uneven, and most of the remaining woodland is presently found only in mountainous regions in the southeast and south. The natural forests in Afghanistan are mainly of two types: (1) dense forests, mainly of oak, walnut and other species of nuts that grow in the southeast, and on the northern and northeastern slopes of the Sulaiman ranges; and (2) sparsely distributed short trees and shrubs on all other slopes of the Hindu Kush. The dense forests of the southeast cover only 2.7% of the country. The destruction of the forests to create agricultural land, logging, forest fires, plant disease and insect pests are all causes of the reduction in forest coverage. However, the most important factor in this destructive process is illegal logging and clear-cuttings by timber smugglers. According to a report in 1997, two and half million cubic feet of lumber were smuggled out of Afghanistan between 1995 and 1996, and sold in Pakistan with permission from the Pakistani Government of that time. However, the unofficial numbers for the amount of lumber smuggled into Pakistan from Afghanistan is estimated to be much higher than this.

## 26 MINING

Afghanistan has valuable deposits of barite, beryl, chrome, coal, copper, iron, lapis lazuli, lead, mica, natural gas, petroleum, salt, silver, sulfur, and zinc. Reserves of high-grade iron ore, discovered years ago at the Hajigak hills in Bamyan Province, are estimated to total 2 billion tons.

On average, some 114,000 tons of coal were mined each year during 1978-84. It is estimated that the country has 73 million tons of coal reserves, most of which is located in the region between Herat and Badakhshan in the northern part of the country. Production in 2000 amounted to 200,000 tons. In 2000, Afghanistan produced 13,000 tons of salt, 3,000 tons of gypsum, 5,000 tons of copper, and 120,000 tons of cement. Deposits of lapis lazuli in Badakhshan are mined in small quantities. Like other aspects of Afghanistan's economy, exploitation of natural resources has been disrupted by war. As well, the remote and rug-



ged terrain, and an inadequate transportation network usually have made mining these resources difficult.

## 27 ENERGY AND POWER

Two decades of warfare have left Afghanistan's power grid badly damaged. As of October 2002, only 6% of the population had access to electricity. In 2000, net electricity generation was 0.4 billion kWh, of which 36% came from fossil fuel, 64% from hydropower, and none from other sources. In the same year, consumption of electricity totaled 453.8 million kWh. Total installed capacity at the beginning of 2001 was 0.497 million kW. Three hydroelectric plants were opened between 1965 and 1970, at Jalalabad, Naghlu, and Mahi Par, near Kabul; another, at Kajaki, in the upper Helmand River Valley, was opened in the mid-1970s. In addition to the Naghlu, Mahi Par, and Kajaki plants, other hydroelectric facilities that were operational as of 2002 included plants at Sarobi, west of Kabul; Pol-e Khomri; Darunta, in Nangarhar province; Dahla, in Kandahar province; and Mazar-i-Sharif. In 1991, a new 72-collector solar installation was completed in Kabul at a cost of \$364 million. The installation heated 40,000 l of water to an average temperature of 60°C (140°F) around the clock. Construction of two more power stations, with a combined capacity of 600 kW, was planned in Charikar City. The drought of 1998–2001 negatively affected Afghanistan's hydroelectric power production, which resulted in blackouts in Kabul and other cities. Another generating turbine is being added to the Kajaki Dam in Helmand province near Kandahar, with the assistance of the Chinese Dongfeng Agricultural Machinery Company. This will add 16.5 megawatts to its generating capacity when completed. The Dahla Dam in Kandahar province was restored to operation by 2001, along with the Breshna-Kot Dam in Nangarhar province, which has a generating capacity of 11.5 MW. The 66-MW Mahipar hydro plant is operating as well.

Natural gas was Afghanistan's only economically significant export in 1995, going mainly to Uzbekistan via pipeline. Natural gas reserves were once estimated by the Soviets at 140 billion cu m. Production started in 1967 with 342 million cu m but had risen to 2.6 billion cu m in 1995. In 1991, a new gas field was discovered in Chekhcha, Jowzjan province. Natural gas was also produced at Shiberghan and Sar-i-Pol. As of 2002, other operational gas fields were located at Djarquduk, Khowaja Gogerdak, and Yatimtaq, all in Jowzjan province. As of 1997, natural gas production was 543,000 cu m (19 million cu ft). It was used domestically for urea production, power generation, and at a fertilizer plant.

In August 1996, a multinational consortium agreed to construct a 1,430 km (890 mi) pipeline through Afghanistan to carry natural gas from Turkmenistan to Pakistan, at a cost of about \$2 billion. However US air strikes led to cancellation of the project in 1998, and financing of such a project has remained an issue because of high political risk and security concerns. As of 2002 interim president Hamid Karzai was attempting to revive the pipeline project.

A very small amount of crude oil is produced at the Angot field in the northern Sar-i-Pol province. Another small oilfield at Zomrad Sai near Shiberghan was reportedly undergoing repairs in mid-2001. Petroleum products such as diesel, gasoline, and jet fuel are imported, mainly from Pakistan and Turkmenistan. A small storage and distribution facility exists in Jalalabad on the highway between Kabul and Peshawar, Pakistan. Afghanistan is also reported to have oil reserves totaling 95 million barrels and coal reserves totaling 73 million tons.

## 28 INDUSTRY

As with other sectors of the economy, Afghanistan's already beleaguered industries have been devastated by over two decades of civil strife and war that left most of the country's factories and even much of the cottage industry sector inoperative. Still in an

early stage of growth before the outbreak of war, industry's development has been stunted since; those few industries that have continued production remain limited to processing of local materials. The principal modern industry is cotton textile production, with factories at Pol e Khomri, Golbahar, Begram, Balkh, and Jabal as Saraj, just north of Charikar. Important industries in 2000 included textiles, soap, furniture, shoes, fertilizer, cement, handwoven carpets, natural gas, coal, and copper.

Carpet making is the most important handicraft industry, but it has suffered with the flight of rug makers during the civil war and since the 2001 US-led bombing campaign. Carpet-making is centered around the north and northwest regions of the country. Afghan carpets are made of pure wool and are hand-knotted, and much of the work is done by women. Production has fluctuated widely from year to year, increasing somewhat during the early 1990s with the establishment of selected "zones of tranquility" targeted for UN reconstruction assistance. Other handicrafts include feltmaking and the weaving of cotton, woolen, and silk cloth. Wood and stone carving have been concentrated in the northeastern provinces, while jewelrymaking has been done in the Kabul area. The making of leather goods has also been a handicraft industry.

## 29 SCIENCE AND TECHNOLOGY

The Afghanistan Academy of Sciences, founded in 1979, is the principal scientific institution. As of 2002, it had about 180 members. Prospective members of the Academy must take a written exam, present samples of their work, and pass a proficiency exam in one of the official languages of the UN. Many Afghan scientists migrated to Europe, the US, and Pakistan during over two decades of war. Under the Taliban, professors who did not teach Islamic studies were relieved of their duties.

The Department of Geology and Mineral Survey within the Ministry of Mines and Industries conducts geological and mineralogical research, mapping, prospecting and exploration.

The Institute of Public Health, founded in 1962, conducts public health training and research and study of indigenous diseases, has a Government reference laboratory, and compiles statistical data.

Kabul University, founded in 1932, has faculties of Science, Pharmacy, Veterinary Medicine, and Geo-Sciences. Its faculty numbers close to 200. The University of Balkh has about 100 faculty members. Bayazid Roshan University of Nangarhar, founded in 1962, has faculties of Medicine and Engineering—its faculty numbers close to 100. The Institute of Agriculture, founded in 1924, offers courses in veterinary medicine. Kabul Polytechnic College, founded in 1951, offers post-graduate engineering courses. Kabul Polytechnic was the site of the June 2002 Loya Jirga, and the international community spent over \$7 million to refurbish part of the campus for the assembly. Buildings on campus had suffered heavy bomb damage. During the 1990s, the campus was shelled and looted by mujahidin groups who fought amongst themselves for control of the capital. Boarding students studying under the rule of the Taliban lived in makeshift dormitories.

## 30 DOMESTIC TRADE

Kabul, Kandahar, Mazār-e-Sharif, and Herāt are the principal commercial cities of eastern, southern, northern, and western Afghanistan, respectively. The first two are the main distribution centers for imports arriving from the direction of Pakistan; the latter two, for materials arriving from Iran and the former USSR. Hours of business vary. The destruction of paved roads has severely constrained normal domestic trade in most rural parts of the country. Heavy fighting in Kabul has completely destroyed the city's infrastructure.

### 31 FOREIGN TRADE

Although the Taliban had brought a repressive order to the 90% of the country under its rule, it was unable to attract foreign investment as long as it was unable to gain international recognition. Hyperinflation had increased the number of Afghani (the country's currency) needed to equal one US dollar from 50 in the early 1990s to a virtually worthless 42,000 in 1999. On October 7, 2002, the first anniversary of the start of the US-led bombing campaign in Afghanistan, a new Afghan currency came into use. Also called the Afghani, the new notes were worth 1000 of the old notes, which were phased out. The government will exchange the dostumi currency, which is used in northern Afghanistan and named after the region's warlord Abdul Rashid Dostum, into new Afghani at half the value of old Afghani. Around 1800 tons of old Afghani were due to be burned or recycled.

The value of exports, including fruits and nuts, carpets, wool, cotton, hides and pelts, and gems totaled an estimated \$1.2 billion in 2001. Imports, including food, petroleum products, and most commodity items totaled an estimated \$1.3 billion.

Principal trading partners in 2000 (in percentages) were as follows:

COUNTRY	EXPORTS	IMPORTS
Pakistan	27.8	23
India	7.7	
Turkmenistan		7.1
Japan		9.9
China (inc. Hong Kong)	4.9	
Kenya		8
Belgium	13	
Finland	6.8	
Kazakhstan		10.9

### 32 BALANCE OF PAYMENTS

Between 1951 and 1973, Afghanistan's year-end international reserves were never lower than \$38 million or higher than \$65 million. Development of the natural gas industry and favorable prices for some of the country's agricultural exports led to increases in international reserves, to \$67.5 million in 1974 and to \$115.4 million as of 31 December 1975. Exploitation of natural gas also freed Afghanistan from extreme dependence on petroleum imports and from the rapid increases in import costs that most countries experienced in 1973 and 1974. Increased trade with the former USSR and Eastern Europe in the late 1970s and 1980s resulted in a reduction of foreign exchange earnings, since trade surpluses are counted as a credit against future imports. Foreign exchange reserves declined from \$411.1 million at the close of 1979 to \$262 million as of 30 May 1987. The public foreign debt in 1997 stood at \$5.49 billion. Reliable statistics are not available for the ensuing years. However, the US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Afghanistan's exports was \$1.2 billion while imports totaled \$1.3 billion resulting in a trade deficit of \$100 million.

### 33 BANKING AND SECURITIES

The government central bank, the Bank of Afghanistan, was founded in 1939. In 1999, the UN Security Council passed a resolution placing the Bank of Afghanistan on a consolidated list of persons and entities whose funds and financial resources should be frozen, due to the fact that the bank was controlled by the Taliban regime. The Interim Administration of Afghanistan requested in January 2002 that the bank be removed from the consolidated list, and the Security Council agreed.

All banks in Afghanistan were nationalized in 1975. In the early 1980s there were seven banks in the country, including the Agricultural Development Bank, the Export Promotion Bank, the Industrial Development Bank, and the Mortgage and Construction Bank.

There is no organized domestic securities market.

### 34 INSURANCE

The fate of the Afghan National Insurance Co., which covered fire, transport, and accident insurance, is unknown as of 2002.

### 35 PUBLIC FINANCE

The fiscal year ends 20 March. Budget breakdowns have not been available since 1979/80, when revenues totaled Af15,788 million and expenditures Af16,782 million. In 2002, the Interim and Transitional governing authorities were working with donor aid agencies to finance the rebuilding of Afghanistan's infrastructure and society. The Interim Administration was supported by the Asian Development Bank, the Islamic Development Bank, UNDP, and the World Bank. An Implementation Group was established to operate an "Operational Costs Trust Fund" for Afghanistan, to be effective when the UNDP "Start-up Fund" ceased, to cover expenditures normally financed by domestic revenue. The Operational Costs Trust Fund will cease to operate when the situation in Afghanistan would approach fiscal normality, estimated by 2006, when the government would be able to finance most or all of its own costs.

The US Central Intelligence Agency (CIA) estimates that in 2000 Afghanistan's external debt totaled \$5.5 billion.

### 36 TAXATION

In the early 1980s, direct taxes accounted for about 15% of government revenues. The share provided by indirect taxes declined from 42% to 30%, as revenues from natural gas and state enterprises played an increasing role in government finance. Tax collection, never an effective source of revenue in rural areas, was essentially disabled by the disruption caused by fighting and mass flight. Under the Taliban, arbitrary taxes, including those on humanitarian goods, were imposed.

### 37 CUSTOMS AND DUTIES

Before the turmoil of the late 1970s, customs duties, levied as a source of revenue rather than as a protective measure, constituted more than one-fourth of total government revenue. As of 1993, both specific and ad valorem duties of 20–35% were levied on imports. Other costs included service and Red Crescent charges; monopoly and luxury taxes; authorization and privilege charges, and a commission-type duty.

After the fall of the Taliban, Afghanistan's warlords collected customs duties for themselves rather than transferring the funds to the Interim and Transitional authorities in Kabul. In May 2002, it was estimated that between \$6 and \$7 million in customs duties were paid each month at Afghanistan's borders with Pakistan, Iran, and Uzbekistan, very little of which went into the government treasury.

### 38 FOREIGN INVESTMENT

A 1967 law encouraged investment of private foreign capital in Afghanistan, but under the PDPA government, Western investment virtually ceased. Between 1979 and 1987, the former USSR provided technical and financial assistance on more than 200 projects, including various industrial plants, irrigation dams, agricultural stations, and a new terminal at the Kabul airport. After 1990, reconstruction investments from Russia, Japan, and the US were channeled through the United Nations. The Taliban called for Western support to help reconstruct Afghanistan, but Western donors—already reluctant to support UN programs in the country—did not respond. After the fall of the Taliban, head-of-state Hamid Karzai encouraged foreign countries for direct investment in Afghanistan, first to reach the people in the provinces who require salaries and owe taxes, and then to invest in businesses that would lead to industrial and technological development.

### **39**ECONOMIC DEVELOPMENT

As of 2002, the World Bank was managing an Afghan Reconstruction Trust Fund (ARTF) to assist the Interim Administration in funding physical reconstruction projects, including in the health sector, as well as managing expenses such as salaries for state employees. The ARTF began in May 2002, as a joint proposal of the World Bank, the UN Development Program (UNDP), the Asian Development Bank, and the Islamic Development Bank. It was set up to streamline international support to Afghanistan by organizing aid pledges within a single mechanism. Contributions to the ARTF are anticipated to total more than \$60 million in the first year, and \$380 million over 4 years. As of November 2002, pledges of funding for Afghanistan reached more than \$4.5 billion for the first 30 months.

### **40**SOCIAL DEVELOPMENT

Social welfare in Afghanistan has traditionally relied on family and tribal organization. In the villages and small towns, a tax is levied on each man to benefit the poor. Disabled people are cared for in social welfare centers in the provincial capitals. Most other welfare activities are still unorganized and in private hands. In the early 1990s, a social insurance system provided old age, disability, and survivors' pensions, sickness and maternity benefits, and workers' compensation.

Women have traditionally had few rights in Afghanistan, with their role limited largely to the home and the fields. Advances in women's rights were made from 1920 onward, and by the time of the communist coup, women attended school in large numbers, voted and held government jobs—including posts as cabinet ministers, and were active in the professions. The Communist regime also promoted women's rights, but the victory of the extremely conservative Taliban in 1996 reversed this trend. Strict limits on the freedoms of women were put in place. Women were only allowed to appear in public if they were dressed in a chadri, or burka, a long black or blue garment with a mesh veil covering the face, and only if accompanied by a male. The Taliban also banned girls from attending school, and prohibited women from working outside the home. Certain restrictions on women were reportedly lifted in 1998. Women were allowed to work as doctors and nurses as long as they treated only women, and were able to attend medical schools. Widows with no means of support were allowed to seek employment.

The human rights record of the governing Taliban was extremely poor. Taliban forces were responsible for disappearances and political killings, including massacres and summary executions. In areas controlled by the Taliban, Islamic courts and religious police imposed strict order based on conservative interpretations of Islamic law that mandated, among other measures, public execution for adultery and amputation for theft. Homes were burned and livestock destroyed in a military offensive in the summer of 1999 that resulted in the forcible relocation of many civilians. Basic freedoms of speech, assembly, religion, and association were abridged under Taliban rule.

With the end of the Taliban, women and girls were permitted to attend schools and universities, and the enforced wearing of the burka was ended. Men were allowed to shave, music and television were permitted, and a host of Taliban-imposed restrictions on society ended. A broad-based, pluralistic society is being fostered, with a high degree of respect for human rights and basic freedoms.

### **41**HEALTH

Starvation, disease, death, war, and migration had devastating effects on Afghanistan's health infrastructure in the 1990s. According to the World Health Organization, medication was scarce. Infectious diseases accounted for more than half of all hospital admissions (mostly malaria and typhoid) in 1994. Even

before the war disrupted medical services, health conditions in Afghanistan were inadequate by western standards. A national medical school was established in 1931 and, in the following year, the first tuberculosis hospital was built. In 1990, for every 100,000 people, 278 were stricken with tuberculosis.

Efforts to take medical services to war-ravaged areas of Afghanistan and to areas left without public health programs due to the termination of services were waged by volunteer medical programs from France, Sweden, the US, and other countries.

In 1991, there were 2,233 doctors, 510 pharmacists, 267 dentists, 1,451 nurses, and 338 midwives. Between 1985-1995 only 29% of the population had access to health services. During those same years, few of the population had access to safe water (10%) and adequate sanitation (8%). For children under one the immunization rates were as follows: tuberculosis (44%), diphtheria, pertussis, and tetanus (18%), polio (18%), and measles (40%) between 1990-94.

In 2002, estimated life expectancy was 46.6 years—one of the lowest in the world—and infant mortality was estimated at 145 per 1,000 live births, which makes the country have the world's fourth highest mortality rate for children under age 5. The maternal mortality rate in 2002 was one of the highest in the Central Asia region with 1,600 maternal deaths per 100,000 live births. The death rate in 2002 was 17 per 1,000 people. Cholera reached epidemic proportions with 19,903 cases reported in 1995. In 2002, 80,000 children a year were dying of diarrheal disease. From 1978 to 1991, there were over 1,500,000 war-related deaths. It is estimated that 3767 civilians died because of US bombs in Afghanistan between October 7 and December 7 of 2001. Approximately 300-400 civilians were killed between October 2001 and July 2002.

As of 2002, Afghanistan had an average of four hospital beds for every 10,000 people. Most of the country's facilities are in Kabul, and those needing treatment must traverse the countryside to get there. Health care is being provided by the international community primarily. Some military field hospitals were set up as a result of the US-led coalition war. There are some medical facilities supported by the Red Cross operating in the country. In 24 of 31 provinces there are no hospitals or medical staff. For every 10,000 people in the country, there is an average of 1.8 physicians. Primary care physicians are most needed for pediatrics, women's health, internal medicine, and ob-gyn. Afghan physicians need training and retraining to upgrade their skills and knowledge base.

### **42**HOUSING

Houses in farming communities are built largely of mud brick and frequently grouped within a fortified enclosure, to provide protection from marauders. The roofs are flat, with a coating of mixed straw and mud rolled hard above a ceiling of horizontal poles, although in areas where timber is scarce, separate mud brick domes crown each room. Cement and other modern building materials are widely used in cities and towns. Every town has at least one wide thoroughfare, but other streets are narrow lanes between houses of mud brick, taller than those in the villages and featuring decorative wooden balconies. The war and bombing campaign has severely damaged or destroyed countless houses. According to an official report, there were 200,000 dwellings in Kabul in the mid-1980s. The latest available figures for 1980-88 show a total housing stock of 3,500,000 with 4.4 people per dwelling.

In 2002, over 100,000 shelters were needed throughout Afghanistan for returning refugees, internally displaced persons, and the extremely poor who had very limited covered space, in both rural and urban areas. The UN High Commissioner for Refugees (UNHCR) is the leader in the field of shelter. Other funders include the UN Development Program, the International Organization for Migration, and CARE International, while the agencies

implementing the programs are the Ministry for Rural Rehabilitation and Development (MRRD) in Afghanistan, the United Nations Human Settlement Program (Habitat), the International Rescue Committee (IRC) as well as an assortment of international and local nongovernmental organizations (NGOs).

### 43 EDUCATION

Adult illiteracy for the year 2002 for males was 49%; females, 79%. This is the highest illiteracy rate in Asia. Education is free at all levels. Primary education lasts for six years and is theoretically compulsory for 6 years, but only 53% of boys and 5% of girls were enrolled in elementary school in 2002. Boys and girls are schooled separately. A teacher has on average 58 pupils in an elementary school classroom, but only 28 students in a secondary school classroom. Only 32% of the males and 11% of females graduating from elementary school continue into secondary education. Vocational training is provided in secondary schools and senior high schools, and six percent of students are enrolled in the vocational system. Secondary education lasts for another six years. Children are taught in their mother tongue, Dari (Persian) or Pashtu (Pashto), during the first three grades; the second official language is introduced in the fourth grade. Children are also taught Arabic so that they may be able to read the Koran (Qur'an). The school year extends from early March to November in the cold areas and from September to June in the warmer regions. The school-aged population in Afghanistan is 6,650,000.

In addition to the secular public education system, the traditional Islamic madrasa school system is functioning. At the madrasas, children study the Koran, the Hadith (Sayings of the Prophet Mohammad), and popular religious texts.

Under the Taliban regime, girls were not allowed to have education at all levels. All teachers have civil service status. The educational system is totally centralized by the state.

The University of Kabul, which is now coeducational, was founded in 1932. In 1962, a faculty of medicine was established at Jalalabad in Nangarhar Province; this faculty subsequently became the University of Nangarhar. By 2002 a total of 8 universities had been established in Afghanistan along with 9 pedagogical institutes. The number of Afghans enrolled in higher education was expected to double from 26,000 to 52,000 by 2003. An estimated one thousand women throughout Afghanistan participated in university entrance examinations in 2002.

### 44 LIBRARIES AND MUSEUMS

For centuries, manuscript collections were in the hands of the rulers, local feudal lords, and renowned religious families. Printing came fairly late to Afghanistan, but with the shift from the handwritten manuscript to the printed book, various collections were formed. Kabul has a public library (1920) with 60,000 volumes, and the library of the University of Kabul has 250,000 volumes. There is a library at Kabul Polytechnic University with 6,000 volumes and a government library, at the ministry of education, also in Kabul, with 30,000 volumes.

Prior to the devastating civil war, the Kabul Museum (founded in 1922) possessed an unrivaled collection of stone heads, bas-reliefs, ivory plaques and statuettes, bronzes, mural paintings, and Buddhist material from excavations at Hadda, Bamian, Bagram, and other sites. It also contained an extensive collection of coins and a unique collection of Islamic bronzes, marble reliefs, Kushan art, and ceramics from Ghazni. In nearly a decade of warfare, however, the museum was plundered by the various armed bands, with much of its collection sold on the black market, or systematically destroyed. As of 2003, the Kabul museum is slowly beginning some restoration. Also in Kabul, is the Kabul University Science Museum, with an extensive zoological collection and a museum of pathology. There are provincial museums at Bamiyan, Ghazni, Herat, Mazar-i-Sharif, Maimana, and Kandahar. Major religious shrines have collections of valu-

able objects. Due to the chaotic political situation in the 1990s, it is impossible to determine the state of any of its collections.

In March 2001, the Taliban dynamited the Bamiyan Buddhas and sold the debris and the remains of the original sculpture. Small statues of the Buddhas in Foladi and Kakrak were destroyed. Most of the statues and other "non-Islamic art" works in the collections of the Kabul Museum were destroyed, including those stored for security reasons in the Ministry of Information and Culture. UNESCO has undertaken a plan to conserve the archaeological remains and the minaret at Jam, and to make it a World Heritage site. The minaret was built at the end of the 12th century and at 65 meters is the second tallest in the world after the Qutub Minar in New Delhi.

### 45 MEDIA

Limited service to principal cities and some smaller towns and villages is provided by the government-operated telegraph and telephone services. Prior to 2001, there were some 30,000 telephones currently in use. Local telephone networks were not operating reliably in 2002. There is no commercial satellite telephone service locally. The first television broadcast took place in 1978. As of 1997, there were 63 radios and 4 television sets per 1,000 population.

Prior to the fall of the Taliban, the major newspapers, all headquartered in Kabul, (with estimated 1999 circulations) were *Anis* (25,000), published in Dari and Pashto; *Hewad* (12,200), and *New Kabul Times* (5,000), in English. In January 2002, the independent newspaper *Kabul Weekly* was published after having disappeared when the Taliban seized power. The first issue carried news in Dari, Pashto, English, and French. UNESCO is providing aid to journalists and technical media staff, including those of national television. It works to strengthen the Afghan News Agency by training journalists, and has projects for the development of public service broadcasting. More than 100 high-quality television productions from all over the world were sent to Radio Television Afghanistan in 2002. That year, an Internet-equipped computer training center was established within the Ministry of Education in Kabul.

### 46 ORGANIZATIONS

Organizations to advance public aims and goals are of recent origin and most are sponsored and directed by the government. The National Fatherland Front, consisting of tribal and political groups that support the government, was founded in June 1981 to bolster the PDPA regime and to promote full and equal participation of Afghan nationals in state affairs.

The Women's Welfare Society carries on educational enterprises, provides training in handicrafts, and dispenses charitable aid, while the Maristun, a social service center, looks after children, men, and women and teaches them crafts and trades. The Revolutionary Association of the Women of Afghanistan (RAWA), established in Kabul, Afghanistan, in 1977, is an independent political organization of Afghan women focusing on human rights and social justice.

With political changes in the country throughout the past decade, a number of new women's groups have developed. These include the Afghan Women Social and Cultural Organization (AWSCO, est. 1994), the Afghan Women's Educational Center (AWEC, est. 1991), the Afghan Women's Network (AWN, est. 1995), the Educational Training Center for Poor Women and Girls of Afghanistan (ECW, est. 1997), the New Afghanistan Women Association (est. 2002 as a merger of the Afghan Women Journalist Association and the Afghan Feminine Association), and the World Organization for Mutual Afghan Network (WOMAN, est. 2002).

The Union of Afghanistan Youth is a national non-government organization representing the concerns of the nation's youth and young adults in the midst of transition and reconstruction. The

organization serves as a multi-party offshoot of the Democratic Youth Organization of Afghanistan (DYOA), which has worked closely with the People's Democratic Party of Afghanistan. Though the Scouting Movement of Afghanistan was disbanded in 1978, the World Organization of the Scout Movement (WOSM) began conducting seminars in July 2003 to encourage and support the rebirth of scouting programs.

The Red Crescent, the equivalent of the Red Cross, is active in every province, with a national chapter of Red Crescent Youth also active. An institute called the Pashto Tolanah promotes knowledge of Pashto literature and the Historical Society (Anjuman-i-Tarikh) amasses information on Afghan history. The Afghan Carpet Exporters' Guild, founded in 1987, promotes foreign trade of Afghan carpets and works for the improvement of the carpet industry.

#### 47 TOURISM, TRAVEL, AND RECREATION

The tourism industry, developed with government help in the early 1970s, has been negligible since 1979 due to internal political instability. A passport and visa are required for entrance into Afghanistan. In 1999, the UN estimated the daily cost of staying in Kabul at \$70. Approximately 61% of these costs were estimated to be the price of a room in a guest house. As travel was highly restricted in the country due to the US-led campaign against the Taliban and al-Qaeda, it is unknown what the daily cost of staying in the country was in 2002.

#### 48 FAMOUS AFGHANS

The most renowned ruler of medieval Afghanistan, Mahmud of Ghazni (971?–1030), was the Turkish creator of an empire stretching from Ray and Isfahan in Iran to Lahore in India (now in Pakistan) and from the Amu Darya (Oxus) River to the Arabian Sea. Zahir ud-Din Babur (1483–1530), a Timurid prince of Ferghana (now in the former USSR), established his base at Kabul and from there waged campaigns leading to the expulsion of an Afghan ruling dynasty, the Lodis, from Delhi and the foundation of the Mughal Empire in India.

Many eminent figures of Arab and Persian intellectual history were born or spent their careers in what is now Afghanistan. Al-Biruni (973–1048), the great Arab encyclopedist, was born in Khiva but settled in Ghazni, where he died. Abdul Majid Majdud Sana'i (1070–1140), the first major Persian poet to employ verse for mystical and philosophical expression, was a native of Ghazni. Jalal ud-Din Rumi (1207–73), who stands at the summit of Persian poetry, was born in Balkh but migrated to Konya (Icönium) in Turkey. The last of the celebrated Persian classical poets, Abdur Rahman Jami (1414–92), was born in Khorasan but spent most of his life in Herat. So did Behzad (1450?–1520), the greatest master of Persian painting.

The founder of the state of Afghanistan was Ahmad Shah Abdali (1724–73), who changed his dynastic name to Durrani. He conquered Kashmir and Delhi and, with his capital at Kandahar, ruled over an empire that also stretched from the Amu Darya to the Arabian Sea. Dost Muhammad (1789–1863) was the founder of the Muhammadzai (Barakzai) dynasty. In a turbulent career, he both fought and made peace with the British in India,

and unified the country. His grandson, Abdur Rahman Khan (1844–1901), established order after protracted civil strife. Amanullah Khan (1892–1960), who reigned from 1919 to 1929, tried social reforms aimed at Westernizing the country but was forced to abdicate. Muhammad Nadir Shah (d.1933), who was elected king by a tribal assembly in 1929, continued Amanullah's Westernization program. His son, Muhammad Zahir Shah (b.1914), was king until he was deposed by a coup in July 1973. Lieut. Gen. Sardar Muhammad Daoud Khan (1909–78), cousin and brother-in-law of King Zahir, was the leader of the coup and the founder and first president of the Republic of Afghanistan. Leaders in the violent years since the 1978 "Saur Revolution" have been Nur Muhammad Taraki (1917–79), founder of the PDPA; Hafizullah Amin (1929–79), Taraki's successor as president of the Revolutionary Council and secretary-general of the PDPA; Babrak Karmal (1929), leader of the pro-Soviet Parcham group of the PDPA and chief of state from December 1979 until May 1986; and Dr. Najibullah (1947–96), former head of the Afghan secret police who was brutally executed by the Taliban militia after they seized control of Kabul.

#### 49 DEPENDENCIES

Afghanistan has no territories or colonies.

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# AUSTRALIA

Commonwealth of Australia

**CAPITAL:** Canberra

**FLAG:** The flag has three main features: the red, white, and blue Union Jack in the upper left quarter, indicating Australia's membership in the Commonwealth of Nations; the white five-star Southern Cross in the right half; and the white seven-pointed federal star below the Union Jack. The flag has a blue background. Of the five stars of the Southern Cross, four have seven points and one has five points.

**ANTHEM:** *God Save the Queen* is reserved for regal and state occasions and whenever singing is appropriate; the national tune is *Advance Australia Fair*.

**MONETARY UNIT:** The Australian dollar (A\$) is a paper currency of 100 cents. There are coins of 5, 10, 20, and 50 cents and 1 and 2 dollars, and notes of 5, 10, 20, 50 and 100 dollars. A\$1 = US\$0.6173 (US\$1 = A\$1.62) as of May 2003.

**WEIGHTS AND MEASURES:** Metric weights and measures are used. The Australian proof gallon equals 1.37 US proof gallons.

**HOLIDAYS:** New Year's Day, 1 January; Australia Day, last Monday in January; Anzac Day, 25 April; Queen's Birthday, second Monday in June; Christmas, 25 December; Boxing Day, 26 December. Numerous state holidays also are observed. Movable religious holidays include Good Friday, Easter Saturday, and Easter Monday.

**TIME:** Western Australia, 8 PM = noon GMT; South Australia and Northern Territory, 9:30 PM; Victoria, New South Wales, Queensland, and Tasmania, 10 PM. Summer time is 1 hour later in all states except Western Australia, Queensland, and the Northern Territory.

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

Lying southeast of Asia, between the Pacific and Indian oceans, Australia, the world's smallest continent, is almost completely surrounded by ocean expanses. Australia is slightly smaller than the United States, with a total area of 7,686,850 sq km (2,967,909 sq mi). The five mainland states are New South Wales, 801,600 sq km (309,500 sq mi); Queensland, 1,727,200 sq km (666,900 sq mi); South Australia, 984,000 sq km (379,900 sq mi); Victoria, 227,600 sq km (87,900 sq mi); and Western Australia, 2,525,500 sq km (975,100 sq mi). The island state of Tasmania has an area of 67,800 sq km (26,200 sq mi); the Northern Territory, 1,346,200 sq km (519,800 sq mi); and the Australian Capital Territory, 2,400 sq km (900 sq mi). The country, including Tasmania, extends about 4,000 km (2,500 mi) E-W and 3,180 km (1,980 mi) N-S.

Australia is bounded on the N by the Timor and Arafura seas, on the NE by the Coral Sea, on the E by the Pacific Ocean, on the SE by the Tasman Sea, and on the S and W by the Indian Ocean, with a total coastline of 25,760 km (16,007 mi). Neighboring areas include Irian Jaya (part of Indonesia) and Papua New Guinea to the north, New Zealand to the southeast, and Indonesia to the northwest.

Australia's capital city, Canberra, is located in the southeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The continent of Australia is divided into four general topographic regions: (1) a low, sandy eastern coastal plain; (2) the eastern highlands, ranging from 300 to more than 2,100 m (1,000–7,000 ft) in altitude and extending from Cape York Peninsula in northern Queensland southward to Tasmania; (3) the central plains, consisting largely of a north-south series of

drainage basins, including the Great Artesian Basin, which underlies about 1,751,480 sq km (676,250 sq mi) of territory and is the most extensive area of internal drainage in the world; and (4) the western plateau, covered with great deserts and "bigger plains" (regularly spaced sand ridges and rocky wastes), rising 300 to 600 m (1,000–2,000 ft) high and constituting most of the western half of the continent.

Australian mountains have eroded over recent geological periods, and only about 6% of the continent is above 600 m (2,000 ft); the average elevation is less than 300 m (1,000 ft). The highest point is Mt. Kosciuszko, 2,228 m (7,310 ft), in the Australian Alps of the southeastern corner of New South Wales; the lowest point is Lake Eyre in South Australia, 15 m (49 ft) below sea level. In 1983, grains of rock from Western Australia were dated at 4.1–4.2 billion years old, making them the oldest ever found on earth.

The most important river system, and the only one with a permanent, year-round flow, is formed by the Murray, Darling, and Murrumbidgee rivers in the southeast. The Murray River, Australia's largest, rises in the Australian Alps of New South Wales and flows some 2,600 km (1,600 mi) west and southwest to empty into the sea below Adelaide, South Australia. Several other rivers are important, but for the most part they carry great amounts of water in the wet season and are dry for the rest of the year. The largest lakes have no outlet and are usually dry. The coastline is smooth, with few bays or capes. The two largest sea inlets are the Gulf of Carpentaria in the north, between Arnhem Land and the Cape York Peninsula, and the Great Australian Bight in the south. The Great Barrier Reef, the longest coral reef in the world, extends for about 2,000 km (1,243 mi) off the east coast of Queensland.

### 3 CLIMATE

Although it has a wide diversity of climatic conditions, Australia is generally warm and dry, with no extreme cold and little frost, its temperatures ranging from comfortably mild in the south to hot in the central interior and north. July mean temperatures average 9°C (48°F) in Melbourne in the southeast and 25°C (77°F) in Darwin in the north. January mean temperatures average 20°C (68°F) in Melbourne and 30°C (86°F) in Darwin. Summer readings often reach 38°C (100°F) or more in almost any area of the continent and may exceed 46°C (115°F) in interior regions. Winds are light to moderate, except along the coasts, where cyclones have occurred.

The continent is subject to great variations in rainfall, but except for a few areas rainfall is insufficient, and the rate of evaporation is high. Mean annual rainfall is 42 cm (17 in), much less than the world mean of 66 cm (26 in). About 18% of the land area is desert. Only about 20% has more than 76 cm (30 in) of rain annually, but these areas suffer from a long dry season, while others have too much rain. Only Tasmania, Victoria, and parts of New South Wales have enough rainfall all year round. Droughts and floods occur irregularly but frequently over large areas. On 25 December 1974, a cyclone and flood devastated most of Darwin; at least 49 people were killed, and some 20,000 were left homeless. Drought conditions became very severe in the early 1980s, leading to dust storms, fires, and multibillion-dollar crop losses. Again in 1994–95, a severe drought devastated eastern agricultural regions.

### 4 FLORA AND FAUNA

Many distinctive forms of plant and animal life are found, especially in the coastal and tropical areas. There are some 500 species of eucalyptus and 600 species of acacia (wattle). Other outstanding trees are the baobab, blackwood, red cedar, coachwood, jarrah, Queensland maple, silky oak, and walnut. Native trees shed bark instead of leaves. Numerous types of wild flowers grow in the bush country, including boronia, Christmas bush, desert pea, flanner flower, Geraldton wax plant, kangaroo paw, pomaderris, and waratah. There are 470 varieties of orchids. About 200 kinds of mammals, 200 kinds of lizards, and 350 kinds of birds are indigenous. Apart from marsupials (bandicoots, kangaroos, koalas, possums, Tasmanian devils, tree kangaroos, and wallabies), the most unusual animals are the dingo, echidna, flying fox (fruit bat), platypus, and wombat. Birds include the anhinga, bellbird, bowerbird, cassowary, emu, galah, kookaburra (laughing jackass), lyrebird, fairy penguin, rosella, and many types of cockatoos, parrots, hawks, and eagles.

Many species of trees, plants, and domestic animals have been imported, often thriving at the expense of indigenous types. Herds of wild buffalo, camels, donkeys, horses, and pigs, descendants of stock that strayed from herds imported by pioneers, roam the sparsely settled areas. The proliferation of rabbits resulted in a menace to sheep, and in 1907, a thousand-mile-long fence was built to keep rabbits out of Western Australia. Subsequently, a similar fence was erected in the east to prevent the incursion of dingos.

### 5 ENVIRONMENT

The principal government institutions responsible for environmental matters are the Department of Home Affairs and Environment, the Australian Environment Council, and the Council of Nature Conservation Ministers. A national conservation strategy, developed by the states, the Northern Territory, and the federal government, in cooperation with the International Union for the Conservation of Nature and Natural Resources, the World Wildlife Fund, and the UNEP, became national policy in 1980.

The Environment Protection (Impact of Proposals) Act of 1974 establishes procedures for ensuring that environmental impact is considered in governmental decision making. The Whale Protection Act of 1981 prohibits killing, capturing, injuring, or interfering with a whale, dolphin, or porpoise within Australia's 200 mi economic zone or, beyond the zone, by Australian vessels and aircraft and their crews. The Environment Protection (Nuclear Codes) Act of 1978 mandates the development of uniform safety standards for uranium mining and milling and for the transport of radioactive materials. The Protection of the Sea (Discharge of Oil from Ships) Act of 1981 and the Protection of the Sea (Prevention of Pollution from Ships) Act of 1983 prevent or limit pollution from oil or noxious substances.

Water being a scarce resource in Australia, problems of water quality and availability are a constant concern. As of 2001, the country had only 352 cu km of renewable water resources, although safe drinking water was available to all urban and rural dwellers. A cause for concern has been the increased salinity in the Murray Valley, caused by diverting water inland from the coast for irrigation, as well as the rise in saline water tables in Western Australia, due to excessive land clearing for dry-land farming. Another significant environmental problem is inland damage due to soil erosion. The quality of the soil is also affected by salinization. As of 1993, Australia had 145 million ha of forest and woodland and had the third most extensive mangrove area in the world, covering over one million ha. In the mid-1990s Australia was among the top 20 world producers of carbon dioxide emissions from industry, which totaled 267.9 million tons per year, or 15.24 tons per capita.

In 2001, 58 species of mammals, 45 species of birds, and 1,871 species of plants were threatened. Endangered species include the banded anteater, greater rabbit-eared bandicoot, Leadbeater's opossum, northern hairy-nosed wombat, woylie, bridled nail-tail wallaby, five species of turtle (western swamp, green sea, hawksbill, leatherback, and olive ridley), Tasmanian freshwater limpet, granulated Tasmanian snail, African wild ass, western ground parrot, paradise parakeet, helmeted honey eater, noisy scrub-bird, western rufous bristlebird, Lord Howe wood rail, Lord Howe currawong, small hemiphysalis damselfly, Otway stonefly, giant torrent midge, and Tasmanian torrent midge. Lord Howe stick insect, Gray's marble toadlet, the dusky flying fox, the Tasmanian wolf, and the banded hare wallaby are among the country's 42 extinct species.

### 6 POPULATION

The population of Australia in 2003 was estimated by the United Nations at 19,731,000, which placed it as number 52 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 99 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.96%, with the projected population for the year 2015 at 21,747,000. The population density in 2002 was 3 per sq km (7 per sq mi).

It was estimated by the Population Reference Bureau that 85% of the population lived in urban areas in 2001. The 2000 population totals of the six state capitals were estimated as follows: Sydney, New South Wales, 3,665,000; Melbourne, Victoria, 3,094,000; Brisbane, Queensland, 1,450,000; Perth, Western Australia, 1,220,000; Adelaide, South Australia, 1,039,000; and Hobart, Tasmania, 183,838. Three other large cities are Newcastle, New South Wales, 433,000; Gold Coast, Queensland, 274,000; Wollongong, New South Wales, 240,000; and Geelong, Victoria, 153,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.9%.



LOCATION:(including Tasmania): 113°09' to 153°39' E; 10°41' to 43°39' S. TERRITORIAL SEA LIMIT: 3 miles.  
 NOTE: Dotted outlines indicate lake beds that are dry except during rainy seasons.

One-third of Australia is virtually uninhabited; another third is sparsely populated. The total population is quite small compared to the large land mass. Most of the cities are located in the east and southeast, with many inhabitants living on the coast.

### 7 MIGRATION

Since World War II, the government has promoted immigration of the maximum number of persons Australia can absorb without

economic disequilibrium. In 1979, however, with the unemployment rate rising, the government tightened immigration requirements so that Australians would not lose jobs to the newcomers. Under the new system, assessments of applications are based on such factors as age, skills, and family ties, with priority given to reunion of families sponsored by Australian residents. In 2001 The Migration Program allowed 80,610 entry visas, most granted under the family and skill based categories.



Most of the 4.2 million immigrants to Australia between 1945 and 1985 were of working age, but although the government encouraged rural settlement, many immigrants had skills in short supply and preferred to work in the cities. The main countries of origin of such workers were the United Kingdom, Italy, and Greece. The number of permanent settlers arriving in 1991 was 116,650, up from a postwar low of 52,748 in 1975–76. The record high for new settlers was 185,099, in 1969–70. From World War II to 1991, over 460,000 refugees settled in Australia. These included more than 130,000 Indochinese.

As of 2002, Australia had 57,800 refugees and 13,015 asylum-seekers, primarily from Afghanistan, Iraq, China and Indonesia. The majority of illegal immigrants are those who entered the country legally but remained beyond the expiration of their visas. The government is undertaking more stringent measures to identify and remove illegal aliens. Australia has also set up programs to assist the integration of migrants and refugees by providing services and education. As of 2000 the net migration rate was 5.1 per thousand. The government views the migration levels as satisfactory.

## **<sup>8</sup>ETHNIC GROUPS**

Most Australians are of British or Irish ancestry. In 1999, approximately 92% of the population was Caucasian. The Asian-born population tally stood at 7% while aboriginal and other groups comprised only 1% of the population.

After the coming of the Europeans, the aboriginal population declined drastically, from about 300,000–1,000,000 to some 60,000 by the early 1920s. By the 1950s, however, the decline was reversed. In the 1991 census 265,492 people identified themselves as being of aboriginal or Torres Strait Islander origin, or 1.5% of the population. (Of these, the latter numbered 26,902.) Many of them live in tribal conditions on government reservations in the north and northwest; some 39,918 were in the Northern Territory in the 1991 census and 41,792 in Western Australia. Queensland had 70,130, and New South Wales, 70,020. Their social organization is among the most complex known to anthropologists. They do not cultivate the soil but are nomadic hunters and food gatherers, without settled communities. Anthropologists believe the aboriginals, also known as Australoids, are relatively homogeneous, although they display a wide range of physical types. Their serological, or blood-group, pattern is unique, except for a faint affinity with the Paniyan of southern India and the Veddas of Sri Lanka. The aboriginals probably originated from a small isolated group subject to chance mutation but not to hybridization. There seems to be a sprinkling of Australoid groups in India, Sri Lanka, Sumatra, Timor, and New Guinea. In 1963, aboriginals were given full citizenship rights, although as a group they continued to suffer from discrimination and a lower living standard than European Australians generally.

Beginning in the 1960s, the government abandoned its previous policy of “assimilation” of the aboriginals, recognizing the uniqueness of aboriginal culture and the right of the aboriginals to determine their own patterns of development. From the passage of the Aboriginal Land Rights (Northern Territory) Act in 1976 to mid-1990, aboriginals in the Northern Territory were given ownership of about 34% of territorial lands (461,486 sq km or 178,180 sq mi). The South Australia state government and its aboriginals also signed a land-rights agreement, and similar legislation was developed in other states during the 1980s. In all, aboriginals held 647,772 sq km (250,104 sq mi) of land under freehold in mid-1989 and another 181,800 sq km (70,193 sq mi) under leasehold. A reservation in Western Australia consisted of 202,223 sq km (78,078 sq mi). By the mid-1990s, however, more than two-thirds of the aboriginals had left rural lands to settle in urban areas.

## **<sup>9</sup>LANGUAGES**

More than 99% of the population speaks English. There are no class variations of speech, and few if any local dialects.

Many languages or dialects are spoken by the aboriginal tribes, but phonetically they are markedly uniform. There is no written aboriginal language, but the markings on “letter sticks,” sometimes carried by messengers from one tribe to another, are readily understood by tribal headmen. Aboriginal languages are in use in certain schools in the Northern Territories and, to a lesser extent, in schools of other states.

## **<sup>10</sup>RELIGIONS**

According to the 2001 census, 67% of citizens considered themselves Christians, including 26% Roman Catholic and 20% Anglican. About 15% of Australians consider themselves to have no religion, an increase of over 35% from 1991. Less than 0.03% of those responding claimed to practice aboriginal religions. A 1996 census indicated that almost 72% of Aborigines practiced some form of Christianity while 16% subscribed to no religion; the 2001 census did not provide comparable updated information on. By 2002, increased immigration from southeast Asia and the Middle East resulted in growth in the numbers of those practicing Buddhism, Islam, Hinduism, and Judaism.

Constitutionally, there can be no state religion or state aid to any religion; the exercise of any religion cannot be prohibited, and a religious test as qualification for public office is forbidden. However, in a 1998 report on freedom of religion in Australia by the federally funded but independent Human Rights and Equal Opportunity Commission (HREOC), the Commission stated that “despite the legal protections that apply in different jurisdictions, many Australians suffer discrimination on the basis of religious belief or non-belief, including members of both mainstream and non-mainstream religions and those of no religious persuasion.” Many non-Christians have reportedly complained to the HREOC that the dominance of traditional Christianity in civic life has the ability to marginalize large numbers of citizens. Since then the HREOC and a Parliamentary Committee have been working of anti-discrimination measures and legislation.

## **<sup>11</sup>TRANSPORTATION**

As of 2002, government-operated railways totaled about 33,819 km (21,015 mi). There are also some private railways, mainly for the iron ore industry in Western Australia. Australian railway systems do not interconnect well, and rail travel between principal cities involves changing trains. Modern equipment is gradually replacing older stock. As of August 1991, all interstate freight movements by rail were brought under the control of the National Rail Corporation (NRC).

Inland water transport is negligible, but ocean shipping is important for domestic and overseas transport. Most overseas trade is carried in non-Australian ships, while most coastwise vessels are of Australian registry. Although the fine natural harbors of Sydney and Hobart can readily accommodate ships of 11 m (36 ft) draft, many other harbors have been artificially developed. Other international shipping ports include Adelaide, Brisbane, Cairns, Darwin, Devonport, Fremantle, Geelong, Launceston, Mackay, Melbourne, and Townsville. All main ports have ample wharfage, modern cargo-handling equipment, and storage facilities. There are some 70 commercially significant ports. The nation’s merchant marine in 2001 included 55 vessels of 1,000 GRT or over, with a combined GRT of 1,767,387. Highways provide access to many districts not served by railroads. As of 2001, there were 913,000 km (567,338 mi) of roads, about 353,331 km (219,560 mi) of which were paved. Motor vehicles in 2000 totaled about 10,618,744, including 8,310,244 passenger cars and 2,308,500 commercial trucks and buses.

Australia had 421 airports in 2001, 294 of which had paved runways. Principal airports include Adelaide, Brisbane, Cairns, Darwin, Melbourne International at Melbourne, Perth International at Perth, and Kingsford International at Sydney. In 1997, the government began privatizing many of the country's airports. The first round of such sales early in 1997 included the Melbourne, Brisbane, and Perth airports, which raised A\$3.34 billion (US\$2.5 billion)—far exceeding government projections. The main Sydney airport was explicitly excluded from the privatization plan. Domestic air services are operated primarily by the privately owned Ansett Airlines. The Australian overseas airline, Qantas, carries more than three million passengers per year to and from Australia, nearly 40% of the total carried by all airlines serving Australia. The airline was owned by the Commonwealth government until it was privatized in 1995. In 2001 Australian air carriers had 33,477,400 passengers and carried 1,678,000 freight ton km (1,042,709 freight ton mi).

## 12 HISTORY

Stone objects that were found in 1978 but are still only tentatively dated suggest that human beings may have inhabited what is now Australia as long as 100,000 years ago. The Aboriginals migrated to Australia from Southeast Asia at least 40,000 years before the first Europeans arrived on the island continent. In 1999, scientists estimated a male skeleton found at Mungo Lake in 1974 to be between 56,000 and 68,000 years old. Covered in red ochre, this skeleton presents the first known use of pigments for religious or artistic purposes. Living as hunters and gatherers, roaming in separate family groups or bands, the Aboriginals developed a rich, complex culture, with many languages. They numbered approximately 300,000 by the 18th century; however, with the onset of European settlement, conflict and disease reduced their numbers.

Although maps of the 16th century indicate European awareness of the location of Australia, the first recorded explorations of the continent by Europeans took place early in the 17th century, when Dutch, Portuguese, and Spanish explorers sailed along the coast and discovered what is now Tasmania. None took formal possession of the land, and not until 1770, when Capt. James Cook charted the east coast and claimed possession in the name of Great Britain, was any major exploration undertaken. Up to the early 19th century, the area was known as New Holland, New South Wales, or Botany Bay.

The first settlement—a British penal colony at Port Jackson (now Sydney) in 1788—was soon enlarged by additional shipments of prisoners, which continued through the mid-1800s, until approximately 161,000 convicts had been transported. With the increase of free settlers, the country developed, the interior was penetrated, and six colonies were created: New South Wales in 1786, Van Diemen's Land in 1825 (renamed Tasmania in 1856), Western Australia in 1829, South Australia in 1834, Victoria in 1851, and Queensland in 1859.

Sheep raising and wheat growing were introduced and soon became the backbone of the economy. The wool industry made rapid progress during the period of squatting migration, which began on a large scale about 1820. The grazers followed in the wake of explorers, reaching new pastures, or "runs," where they squatted and built their homes. Exports of wool increased from 111 kg (245 lb) in 1807 to 1.1 million kg (2.4 million lb) in 1831. With the increased flow of immigrants following the Ripon Land Regulations of 1831, the population grew from about 34,000 in 1820 to some 405,000 in 1850. The discovery of gold in Victoria (1851) attracted thousands, and in a few years the population had quadrupled. Under the stimulus of gold production, the first railway line—Melbourne to Port Melbourne—was completed in 1854. Representative government spread throughout the continent, and the colonies acquired their own parliaments.

Until the end of the 19th century, Australia's six self-governing colonies remained separate. However, the obvious advantages of common defense and irrigation led to the federation of the states into the Commonwealth of Australia in 1901. (The British Parliament had approved a constitution in the previous year.) The Northern Territory, which belonged to South Australia, became a separate part of the Commonwealth in 1911. In the same year, territory was acquired from New South Wales for a new capital at Canberra, and in 1927, the Australian Parliament began meeting there. Liberal legislation provided for free and compulsory education, industrial conciliation and arbitration, the secret ballot, female suffrage, old age pensions, invalid pensions, and maternity allowances (all before World War I). Child subsidies and unemployment and disability benefits were introduced during World War II.

Australian forces fought along with the British in Europe during World War I. In World War II, the Australian forces supported the UK in the Middle East between 1940 and 1942, and played a major role in the Pacific theater after the Japanese attack on Pearl Harbor. After the war, a period of intense immigration began. The Labour government was voted out of office in 1949, beginning 23 years of continuous rule by a Liberal-Country Party (now known as the National Party) coalition. During that period, Australian foreign policy stressed collective security and support for the US presence in Asia. Australian troops served in Vietnam between 1965 and 1971.

When Labour returned to power in December 1972, it began the process of dissociating Australia from US and UK policies and strengthening ties with non-Communist Asian nations; in addition, it established diplomatic relations with the People's Republic of China. In 1975 a constitutional crisis resulted when Senate opposition successfully blocked the Labour Party's budgetary measures, thereby threatening the government with bankruptcy. The governor-general dismissed the Labour Prime Minister, Gough Whitlam, and called for new elections. The Liberal-National Party coalition swept back into power, where it remained until 1983. The Australian Labour Party (ALP) returned to power in 1983, following a campaign in which such economic issues as unemployment and inflation predominated.

In 1993, the Mabo Ruling on Native Title recognized the land rights of the indigenous people (Aborigines) inhabiting Australia prior to the arrival of the Europeans. The Mabo Ruling did not void existing leases, but could allow the Aborigines to reclaim land when the leases granted by the national or state governments expired. The Mabo Ruling applied only to non-pastoral leases, but the Wik Judgment of 1996 extended the land rights of indigenous people to include their use of pastoral land for religious purposes.

In the March 1996 elections, the ALP was unseated by a coalition of the Liberal Party and the National Party, who chose Liberal MP John Howard to be Prime Minister. The newcomer Howard pledged to change the government, to make it more "rational." To that end, he cut ministries and cabinet posts, made budget cuts affecting higher education, Aborigine affairs, and jobs, and instituted an A\$15 billion privatization program. Many government employees opposed these changes; violent demonstrations took place when the budget was made public. While the revised budget was less radical, social unrest continued through 1997–1998, and the October 1998 election found Howard's coalition party's majority greatly reduced, while the ALP gained in influence, winning 18 more seats than it did in the 1996 election.

In July 1998, after twice being rejected by the Senate, the government passed amendments to the 1993 Native Title Act. The amendments removed the time limit for lodging native claims, but weakened the right of Aboriginal groups to negotiate with non-Aboriginal leaseholders concerning land use. In 1999 the government issued an official expression of regret for past

mistreatment of Aborigines, but has opposed issuing the formal national apology sought by Aborigine leaders, fearing that would encourage claims for compensation.

In September 1999, Australian troops led the United Nations-sanctioned peacekeeping forces into East Timor, to protect civilians and control the militia violence following East Timor's referendum decision to seek full independence from Indonesia. Australian civilian and military personnel form part of the United Nations Mission of Support in East Timor (UNMISSET), which was established to ensure the security and stability of East Timor after it became an independent nation-state on 20 May 2002.

Parliamentary elections held on 10 November 2001 saw Howard's coalition increase its strength by over 3%. The ALP recorded its lowest primary vote since 1934. The Australian Greens recorded a substantial increase in strength. Two events stood out in the election campaign that swung the vote to the Liberal Party-National Party coalition. The first was the controversy over refugees and asylum-seekers. In August 2001, a Norwegian freighter which had rescued a boatload of asylum-seekers was denied permission to land the human cargo in Australia. The Howard government also tightened its border protection laws since then, making it nearly impossible for any asylum-seeker landing in the remote island outposts of Australia to claim refugee status. Instead, the would-be refugees are either turned back to Indonesian waters or transported to detention centers on Pacific nations such as Nauru or Papua New Guinea. John Howard declared, "We will decide who comes to this country and under what circumstances." The ALP criticized the government for this policy, which remained a major campaign issue. The terrorist attacks on the United States on 11 September 2001, and the subsequent US-led bombing campaign on the Taliban and al-Qaeda forces in Afghanistan, also were issues that dominated the Australian election campaign.

On 12 October 2002, two popular nightclubs in Kuta on the Indonesian island of Bali were bombed, killing more than 180 people, 88 of them Australians. The bombings have been linked to the terrorist organization Jamaal Isayah. They have been referred to as "Australia's September 11th."

### 13 GOVERNMENT

The Commonwealth of Australia, an independent, self-governing nation within the Commonwealth of Nations, has a federal parliamentary government. The federation was formed on 1 January 1901 from six former British colonies, which thereupon became states. The constitution combines the traditions of British parliamentary practice with important elements of the US federal system. Powers of the federal government are enumerated and limited.

The government consists of the British sovereign, represented by a governor-general, and the Australian Parliament. The Reverend Dr. Peter John Hollingsworth became the new Governor-General in June 2001, succeeding Sir William Deane, who had held the post since 1996. Nominally, executive power is vested in the governor-general and an executive council, which gives legal form to cabinet decisions; in practice, however, it is normally exercised by a cabinet chosen and presided over by a prime minister, representing the political party or coalition with a majority in the House of Representatives. The number of cabinet ministers is variable.

Legislative power is vested in the Parliament, which is composed of a 76-member Senate, representing the states and territories, and a 150-member House of Representatives, representing electoral districts. Members must be Australian citizens of full age, possess electoral qualification, and have resided for three years in Australia. Twelve senators are elected by proportional representation from each state voting as a single electorate, and two senators each from the Northern Territory and Capital Territory. They are elected for six years, with half the

members retiring at the end of every third year. House membership is not quite double that of the Senate, with a minimum of five representatives for each state. House members are elected according to population by preferential voting in specific electoral districts; they serve for three years, unless the House is dissolved sooner. There are two members each from the Australian Capital Territory and the Northern Territory; they have been able to vote on all questions since 1968. Parliament must meet at least once a year. Taxation and appropriation measures must be introduced in the lower house; the Senate has the power to propose amendments, except to money bills, and to defeat any measure it may choose.

The parties in the House elect their leaders in caucus. The party or coalition with a majority of seats forms the government. The leader of the majority party becomes prime minister and selects his cabinet from members of his party who are members of Parliament, while the leader of the principal minority party becomes leader of the official opposition. The party in power holds office as long as it retains its majority or until the governor-general decides that new elections are necessary; he exercised this inherent constitutional power during the 1975 crisis when he dismissed Prime Minister Whitlam and called for new elections.

In the 1990s, the Labour Government, under the leadership of Prime Minister Paul Keating, proposed a referendum to change Australia to a republican form of government. The idea gained wide support. After the 1996 federal elections, the coalition majority decided to host a constitutional convention to decide the issue. The constitutional convention met in February 1998, and voted in favor of replacing the British monarch as the head of Australia's government (73 voted in favor, 57 against), and Australia becoming a republic by the year 2001 (89 voted in favor, 52 against). But in November 1999's popular referendum, the proposal to convert Australia to a republic failed to carry even a single state.

Suffrage is universal for all persons 18 years of age and older, subject to citizenship and certain residence requirements. Voting is compulsory in national and state parliamentary elections.

### 14 POLITICAL PARTIES

Since most Australians have been shaped by the same language and by a similar cultural and religious heritage, their internal differences are largely based on economic issues. Attachments to the UK are compounded of sentiment, tradition, and economic advantage. Australian nationalism has been associated more closely with the Australian Labour Party (ALP) than with its rivals, who tend to regard Australian interests as almost identical with those of the UK. Because of Australia's geographical position as a "European people on an Asian limb," the economic element in its nationalism has been mixed with the fear of external conquest or domination.

Except in 1929-31, when a Labour government was in office, interwar governments were dominated by non-Labour groupings. When war seemed certain in 1939, the government was resolutely imperial, considering Australia to be at war automatically when the UK went to war. The Laborites challenged this view. While they did not oppose a declaration of war on Germany, they wanted the step to be taken so as to show Australia's independence.

Labour was in office from 1941 to 1949. The Liberal and Country Parties were in office as a coalition for a long period afterward, from 1949 to 1972, and again beginning in December 1975 (by that time, the Country Party had become the National Country Party, and it later became the National Party).

In the general elections of 13 December 1975, a caretaker government, formed the preceding month by the Liberal-National Country Party coalition after the dismissal of the Labour government of Prime Minister Gough Whitlam, obtained large majorities in both houses of the legislature. Although its

majorities were eroded in the elections of December 1977 and October 1980, the coalition remained in power until March 1983, when Labour won 75 out of 147 seats in the House of Representatives. Robert Hawke, leader of the Labour Party, took office as prime minister; he was reelected in 1984, 1987, and 1990. Paul Keating replaced Hawke as Labour's leader, and as prime minister, in December 1991. This was the first time an Australian prime minister had been ousted by his own party. Keating led the ALP to an unprecedented fifth consecutive election victory in the 1993 general election, increasing both its percentage share of the vote and its number of seats in the legislature. In 1996, a Liberal-National Party coalition headed by John Howard ousted the ALP from the majority, with the Liberal-National coalition winning 94 seats compared to the ALP's 49 seats. John Howard was reelected prime minister in 1998 and 2001.

A direct descendant of the governments of the 1920s and 1930s, the Liberal-National coalition is principally linked with business (Liberal) and farming (National) and is officially anti-socialist. In economic and foreign affairs, its outlook is still involved with the Commonwealth of Nations, but it supports the UN, as well as the alliance with the United States in the ANZUS pact. It is sympathetic toward the new Asian countries and values the link with these countries afforded by the Colombo Plan. The Labour Party is a trade-union party, officially socialist in policy and outlook. It initially maintained an isolationist posture, but since the early 1940s, its policy has been a mixture of nationalism and internationalism.

Smaller parties include the Democratic Labour Party, the Communist Party, the Australian Democrats Party, the Green Party, and the One Nation Party. Since its formation in 1997, the One Nation Party's platform has featured racial issues. In the 1998 Queensland state elections, it won 11 of 89 seats. In the federal elections of that same year, the One Nation Party called for an end to Asian immigration and a restriction to Aboriginal welfare programs, but failed to win any seats. The Green Party increased its strength by 2.3% in the 2001 elections, while the One Nation Party lost 4.1% of its strength.

## 15 LOCAL GOVERNMENT

Powers not specifically granted to the federal government in the constitution are reserved to the states, although some powers (such as health, labor, and social services) are held concurrently. Each state has an appointed governor who serves as the representative of the sovereign. Except for Queensland, which has a unicameral legislature, the parliament in each state is composed of two houses. The lower houses—the dominant legislative bodies—are popularly elected; the upper houses are elected by franchise limited to property holders and to those with certain academic or professional qualifications. The state prime minister achieves office and selects his cabinet in the same fashion as does the Commonwealth prime minister. The Australian Capital Territory and the Northern Territory have unicameral legislative assemblies.

Local communities (variously designated as boroughs, cities, district councils, municipalities, road districts, shires, and towns) have limited powers of government, but they are responsible for some health, sanitation, light, gas, and highway undertakings. Even the largest cities do not provide their own police protection, nor do they conduct or support education; these are state functions. Local aldermen or councilors ordinarily are elected on a property franchise, and mayors are elected annually or biennially by the aldermen from among their own number or by taxpayers. State departments of local government regulate the organization of local government. State governments directly control some large interior areas.

## 16 JUDICIAL SYSTEM

The constitution vests federal jurisdiction in a High Court of Australia which consists of a chief justice and six associate justices appointed by the general governor. The High Court has the authority to conduct constitutional review of state and federal legislation and is the supreme authority on constitutional interpretation. The High Court also has original jurisdiction over interstate and international matters.

Until 1985, in certain cases involving state law, appeals from courts below the High Court could be taken to the Privy Council in the United Kingdom, the final court of the Commonwealth of Nations. Special cases may be referred to a 25-member federal court that deals with commercial law, copyright law, taxation, and trade practices. There is also a family court.

States and territories have their own court systems. Cases in the first instance are tried in local or circuit courts of general and petty sessions, magistrates' courts, children's courts, or higher state courts. Capital crimes are tried before state supreme courts.

The state and federal courts are fully independent. The High Court has recently ruled that indigent defendants have a right to counsel at state expense. Criminal defendants are presumed innocent, and a plethora of due process rights include the right to confront witnesses and the right to appeal.

The law provides for the right to a fair trial. In local courts, the magistrates sit alone. In the higher courts, trials are usually conducted by judge and jury. The law prohibits arbitrary interference with privacy, family, home, or correspondence.

## 17 ARMED FORCES

The Australian armed forces numbered 50,920 active personnel in 2002, including 6,364 women. The army consisted of 25,150; the navy, 12,570; and the air force, 13,200. Reserve forces numbered 20,300 for all three services. Military weapons systems included 71 battle tanks, 6 submarines, and 156 airforce combat aircrafts. Australia contributed to peacekeeping missions in East Timor, Ethiopia/Eritrea, Egypt, and the Middle East.

Australia's estimated defense expenditure in 2001–02 was \$9.3 billion, 2% of GDP.

## 18 INTERNATIONAL COOPERATION

Australia is a charter member of the UN, to which it gained admission on 1 November 1945. It belongs to ESCAP and all the nonregional UN specialized agencies and is a signatory to the Law of the Sea and a member of the WTO. Australia also participates in the Commonwealth of Nations and ANZUS, as well as the Asian Development Bank, Colombo Plan, OECD, South Pacific Commission, South Pacific Forum, and other intergovernmental organizations.

## 19 ECONOMY

Australia has a prosperous Western-style capitalist economy with a high per capita GDP, estimated in purchasing power parity (PPP) terms by the US Central Intelligence Agency (CIA) at \$24,000 for 2001. Since the late 1980s, the government has been engaged in a program to transform the economy's orientation from import substitution industrialization (ISI) to export-driven, high-tech globalization. This helped introduce an economic expansion from September 1991 that as of March 2002 had continued uninterrupted for 43 quarters, despite slowdowns occasioned by the 1997 Asian financial crisis and the 2001 global economic downturn.

Home processing industries that rely on Australian surpluses of raw material inputs of wool, food and minerals (particularly coal) beyond domestic needs still comprised about 55% of merchandise exports in 2000. Traditional exports accounted for about half of Australia's foreign exchange earnings, down from two-thirds in the mid-1990s, mainly due to the increased earnings

from tourism and an increasing share of high tech exports. Australia's flexible exchange rate regime has helped the economy rapidly adjust to the vicissitudes of international commodity markets. It is the world's largest wool-producing country. Faced with competition from synthetics, the wool exports experienced a decade of decline until the recent recovery in 2000/01, as world prices jumped 21%. The country, also one of the great wheat exporters, experienced an estimated 3% loss in wheat production in 2000/01 due to the weather which was turned to gain as returns increased due to higher prices. Australia also exports large quantities dairy and meat products. Live cattle exports for the past four years have been outperforming more traditional cotton and sugar production. In minerals, Australia is also a major world supplier of iron ore, bauxite, lead, zinc, and copper; coal, beach sand minerals, and nickel have become major industries as well. Since the 1960s manufactured goods have provided an ever-increasing share of the country's exports, with elaborately transformed manufactures (ETMs), like automobiles, high-speed ferries, and telecommunications equipment, making up 23% of exports in 2001.

Heavy-industry expansion took place from 1960 to 1970, with steel output more than quadrupling during this period. By the 1980s, however, Australian steel was facing stiff competition from abroad, and production stagnated. In 2001, steel production fell and world steel prices dipped below 70% of their 1994 level, but Australian productivity rose, and due to a combination of the low value of the Australian dollar, and the United States offering around 85% of Australian steel imports exemptions from the steel tariffs and quotas it had imposed in March 2001, net returns on steel exports actually improved in 2001. The Asian financial crisis in 1997, however, had a more serious impact on export revenues from heavy industry, which declined in 1998 an average of -5%.

Australia's last economic recession was in 1990, from which it began to recover in mid-1991. Economic growth, supported by rising consumption and higher export demand, reached 4% in the fourth quarter of 1993. However, the unemployment rate of about 11% was near a postwar record. From this high point, however, unemployment has been on a steady decline in Australia—to 8.5% unemployment in 1995, 7.5% in 1999, and 6.3% in 2000, albeit with an increase in 2001 to 6.7%. IMF figures predict a return to the downward trend in 2002 and 2003, with a projection of 6.3% and 6% unemployment, respectively. Real GDP growth fell to 3.7% in 1997, but recovered in 1998 and 1999 to an average of 5%, helped by reforms that included currency depreciation and a redirection of exports to non-Asian countries. By IMF estimates, real GDP growth fell to 3.1% in 2000 and 2.6% in 2001, but its projections are for real growth rates to recover to about 4% in 2002 and 2003, Australia's long-term average.

Australia's economy was not immune from the impact of the 2001 global slowdown and the aftershocks from the 11 September 2001 terrorist attacks on the United States, as real growth declined, growth in exports plummeted from 10.9% in 2000 to 0.8% in 2001, imports fell 4.7% in 2001, and several major businesses collapsed into bankruptcy. The Australian dollar continued its slide against the US dollar that took it from A\$1.34/US\$1 in 1997 to A\$1.94/US\$1 by January 2002. The benefit of the currency depreciation, however, was to make Australian exports increasingly competitive, and the decline in imports in 2001 helped maintain Australia's remarkably steady current account surplus, which has remained unchanged at 0.2% of GDP from 1997 through 2001. During the 1990s Australia recorded an average annual economic growth rate of nearly 4% a year, the second-fastest growth rate among developed countries, behind only Ireland.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Australia's gross domestic product (GDP) was estimated at \$528 billion. The per capita GDP was estimated at \$27,000. The annual growth rate of GDP was estimated at 3.6%. The average inflation rate in 2002 was 2.8%. 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%.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$14,105. 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%. The richest 10% of the population accounted for approximately 25.4% of household consumption and the poorest 10% approximately 2.0%.

## 21 LABOR

As of 2001, the Australian workforce numbered 9.42 million people. In 1997, the occupational pattern was as follows: services 73%, industry 22%, and agriculture 5%. The unemployment rate stood at 6.3% in 2002.

As in many other highly developed industrial nations, union membership has declined significantly: from around 53% of the workforce in 1980 to 25% as of 2000. The drop has resulted in a consolidation of labor unions: there were 300 unions in 1989, but only 188 in 1993. The traditionally de facto right to strike was legalized in 1994. The Federal Workplace Relations Action puts limits on strikes and unfair dismissal.

Although there is a standard minimum wage, 80% of workers have their pay determined by minimums that apply to their particular industry or profession. All of these wages are sufficient to support a family. The standard workweek is under 40 hours, generally from Monday through Friday. Nearly all Australian workers receive four weeks of annual vacation, many at rates of pay 17.5% above regular pay. There is no nationally mandated minimum age for employment, but education is compulsory which precludes children under 16 years old from full-time work.

## 22 AGRICULTURE

Australia is an important producer and exporter of agricultural products and a major world supplier of cereals, sugar, and fruit. Arable land in 1998 comprised about 53.1 million ha (131.2 million acres), representing about 6.9% of total land area. However, approximately 90% of the utilized land area is in its natural state or capable of only limited improvement and is used largely for rough grazing. Droughts, fires, and floods are common hazards. The area actively cultivated for crops is 6.9% of all land area. Lack of water is the principal limiting factor, but unsuitable soil and topography are also important determinants. As of 1998, some 2,700,000 ha (6,672,000 acres) of land were irrigated. Agriculture has declined from 20% of GDP in the 1950s to about 3% in 2001. Agricultural exports, which accounted for 60% of Australia's exports in the 1960s, now account for 25%. Gross farm product in 1999/2000 was A\$28.5 billion. New South Wales and Queensland account for half of the total crop value.

Grain crops have been cultivated since the first year of European settlement. In November 1790, plantings around Sydney of wheat, barley, and corn totaled 34 ha (84 acres). Today, winter cereals are cultivated in all states. Three cereals are often grown on one farm for grain, green fodder, and hay for livestock. Most wheat, barley and about half the oats are grown

for grain. The estimated wheat area sown for grain increased from 11,135,000 ha (27,515,000 acres) in 1986/87 to 12,200,000 ha (30,150,000 acres) in 1999/2000. Production of wheat in 1999/2000 was an estimated 24.8 million tons. Western Australia and New South Wales are the chief wheat-producing states. In 1999, Australia produced 4,360,000 tons of barley, 1,503,000 tons of oats, and 1,410,000 tons of rice. In 1999/2000, 1.2 million tons of potatoes were produced.

Sugarcane is grown along a 2,000 km (1,200 mi) stretch of coastal land in New South Wales and Queensland. About 95% of sugar production comes from Queensland. A normal crushing season is from June to December. The estimated 1999 harvest from 415,000 ha (1,025,000 acres), yielded about 36.9 million tons of sugar cane. The industry faces problems of excessive supply and price elasticity; sugar is sold primarily to Japan, the United States, Canada, South Korea, Malaysia, China, and Singapore. Although tobacco growing is a relatively small industry, it is important in some areas. In 1999, some 3,000 ha (7,400 acres) were planted with tobacco, and about 7,000 tons were produced.

Cotton has been grown in the coastal river valleys of Queensland for more than a century but on a limited scale, and it has provided only a small percentage of Australia's lint requirements. In the 1980s, however, successful development of cotton-growing areas in New South Wales and Western Australia has resulted in spectacular production increases. In 1985/86, 685,000 tons of cotton were produced (almost triple the amount in 1979/80); in 1999, production amounted to 716,000 tons.

Australia's wide climate differences permit the cultivation of a range of fruits, from pineapples in the tropical zone to berry fruits in the cooler areas of temperate zones. Orchard fruit trees included orange, 7.8 million; apple, 9.7 million; pear, 1.5 million; and peach, one million. About 12.2 million ha (30.1 million acres) are cultivated for bananas and 4.8 million ha (11.9 million acres) for pineapples. Production of fruit in 1999 included (in thousands of tons): oranges, 470; bananas, 230; pineapples, 123; pears, 165; peaches, 90; tangerines, 61; lemons and limes, 31; apricots, 20; grapefruit, 18; mangoes, 37; and plums, 27. Australia's wine industry is also growing; viticulture engaged 99,000 ha (245,000 acres) and produced 1,112,000 tons of grapes for winemaking, drying, and other uses in 1999.

## 23 ANIMAL HUSBANDRY

About 54% of Australia's land is used in stock raising. Animal husbandry is concentrated in the eastern highlands, but it spreads across the wide interior spaces and even to low-rainfall areas, in which up to 12 ha (30 acres) are required to support one sheep and from which cattle must be taken overland hundreds of miles to coastal meat-packing plants.

Sheep raising has been a mainstay of the economy since the 1820s, when mechanization of the British textile industry created a huge demand for wool. In 1800, there were 6,124 sheep in Australia; by 1850 there were 17.5 million; by 1894, some 100 million; and in 1970, a record high of some 180 million. Sheep numbers fell to 120 million in 1994/95 (the lowest since 1953/54) due to severe drought. Australia's flocks, some 119.6 million in 1999, now constitute approximately 11% of the world's sheep but produce about 30% of the world's wool supply. Wool production, the largest in the world, was an estimated 931,000 tons in 1999. About 95% is exported (mostly to China); nevertheless, wool, which represented 50% of Australia's merchandise exports (by value) in 1957/58, constituted only 6% by the mid-1990s. Since 1990, wool production has fallen by 35%, due in part to declining world demand. Australia produces about one-third of the world's wool, and accounts for 75% of the world's exports of wool apparel. During periods of great drought, such as the early 1980s, the number of sheep has diminished by 40 million or more. (A drop of 60 million occurred in the

droughts of 1993/94.) In the better lands, however, animal husbandry ranks high on a world scale. Large, scientifically managed stations have produced some of the world's finest stock. Sheep of the Merino breed, noted for its heavy wool yield, make up about three-quarters of Australian flocks.

In 1999 there were an estimated 2.7 million hogs and 26.7 million head of cattle. In the same year, meat production totaled an estimated 3,606,000 tons. Of these, beef and veal constituted 2,009,000 tons; poultry, 603,000 tons; mutton and lamb, 608,000 tons; and ham, pork, and bacon, 362,000 tons. Butter production in 1999 (in factories) amounted to an estimated 161,000 tons; whole milk was estimated 9.7 million tons; and cheese (factory production) was about 308,000 tons. In 2000, the government implemented a dairy deregulation plan removing price supports. Egg production is around 190,000 tons per year, predominantly for domestic consumption. Australia produces some 25,000 to 30,000 tons of honey per year, half of which is exported. Beef exports in 2001 were \$2.38 billion. Nearly 60% of total beef production is exported annually, most of it going to the United States, South Korea, and Taiwan.

## 24 FISHING

Fishing is relatively unimportant, even though the Australian Fishing Zone is the third largest in the world. Even with a low per capita fish consumption, Australia must import about half its normal requirements. Pearl and other shell fishing are relatively significant. The 2000 catch of fish, crustaceans, and mollusks totaled 211,391 tons, 99% from marine waters. Exports of fishery products in 2000 were valued at \$1 billion.

## 25 FORESTRY

Forests and woodlands cover 165.9 million ha (410 million acres), or about 22% of the total land area; most timberland is neither exploited nor potentially exploitable. Native forests cover 43.2 million ha (106.7 million acres), of which 26.6% is state forest, 26.2% is privately owned, 24.5% is crown land, and 22.7% is in permanent national parks or reserves. About 60% of the state forest areas are available for sustainable logging; crown lands are mostly leased for cattle grazing with limited timber production. Native forests consist principally of hardwood and other fine cabinet and veneer timbers; eucalyptus dominates about 35 million ha (86.5 million acres). Limited softwood resources had become seriously depleted, but new plantations were established in the 1980s at a rate of 33,000 ha (81,500 acres) annually. Softwood plantations supply more than half the timber harvested annually. Plantation forests are 77% publicly owned and cover 1,484,740 ha (3,668,792 acres), of which 65% is softwood. Although Australia is a net importer of forest products, the forest and wood products industries contribute 2% to GDP.

Roundwood production in 2000 totaled about 30.5 million cu m (1.08 billion cu ft), with exports of 969,000 cu m (34.2 million cu ft). There was a 3% increase in roundwood production in 2000–01. Some 12.9 million metric tons of forest products were produced in 2001. Australia's leading forest products are softwood logs and chips. Whereas all of the softwood log production is consumed at home, all commercial woodchip production is exported. National parks and wildlife preserves occupy about 3.8 million ha (9.4 million acres), or 9% of the total forestlands. Extensive reforestation—62,000 ha (153,000 acres) annually during the 1980s—has been undertaken to combat soil erosion. Since hardwoods grow slowly, Australia will probably have to import a great deal of lumber in future years to meet its timber needs.

## 26 MINING

Australia continued as the world's third-largest producer of minerals and metals. Its mineral industry, flourishing in all six

states and the Northern Territory, served as a leading catalyst for the economy, which grew 4% in 2000. The country had the world's largest economic demonstrated resources (EDR) of lead, mineral sands, nickel, silver, tantalum, uranium, and zinc, and its EDR ranked in the top six for bauxite, black coal, brown coal, cobalt, copper, gem and near-gem diamonds, gold, iron ore, lithium, manganese ore, rare-earth oxides, and vanadium. The country is virtually self-sufficient in mineral commodities, commercially producing more than 60 minerals and metals. Successful exploration in the late 1960s led to a long-term mineral boom and a sharp increase in exports. Australia is the world's leading exporter of alumina, bauxite, coal, diamond, ilmenite, iron ore (the country's fourth-largest minerals earner), refined lead, rutile, and zircon. Export earnings increased to about \$9.46 billion in the fourth quarter of 2000, a 42% increase over the same period in 1999.

Gold production in 2000 was 296,410 kg, a 4% decrease from 1999. Gold accounted for \$2.73 billion of the country's \$30.56 billion in total mineral export value, and reserves were estimated at 5,018 tons. Western Australia produced 75% of the country's 300 ton per year output. The largest producer in 2000 was Australian Gold Refineries, whose Perth Refinery, at Newburn, had an annual capacity of 95,000 kg and whose Kalgoorlie Refinery had an annual capacity of 46,000 kg. A feasibility study for the Granny Smith Mine anticipated about 10 tons of gold during the 6-year life of the opencut operation beginning in 2002. Mining also began in 2000 at the Carosue Dam opencut mine, with production planned at 3.4 to 4.4 tons per year of gold during a mine life of 8 to 10 years. In 2000, the country was the world's leading producer of alumina, bauxite (for the 30th consecutive year), chrysoprase, ilmenite, mined lead, precious opal, rutile, and zircon; ranked second in iron ore (with 15% of world production), mined cobalt, and mined zinc; ranked third in mined gold (with 10% of the world's output) and mined nickel; and was fourth in mined copper. Metallic minerals contributed 40% of the country's \$25 billion in mineral and energy production in 2000, and industrial minerals contributed another 5%.

Australia produced 2,060 tons of silver in 2000, doubling 1996's output of 1,013 tons; reserves were estimated at 31,000 tons. Texas Silver Mines increased its indicated resources at Twin Hills, in southern Queensland, from 300 tons to 450 tons of silver equivalent (silver and gold). BHP Minerals and MIM Holdings are the two largest producers, with annual capacities of 750,000 and 375,000 kg, respectively.

In 2000, Australia produced 14.7 million carats of gem diamond (18.4 million in 1998), and 12 million carats of industrial diamond (22.5 million in 1998). Reserves were estimated at 82.4 million carats of gem and near-gem diamond, and 85.5 million of industrial diamond. Argyle's principal diamond ore body, the AK-1 lamproite pipe, near Kununurra, Western Australia, produced nearly twice the amount of diamond as any other in the world, able to supply 42 million carats a year, including some of the highest diamond grades—about 5% was of gem quality, including a small number of very rare pink diamonds; 40% was of near gem quality; and 55% was of industrial quality. Argyle's alluvial operations were scheduled to close in 2001.

The value of opal produced in 2000 was \$152 million, up from \$110 million in 1997. Lightning Ridge, in New South Wales, was the world's major source of black opal. Australia also produced 30% of the world's rough sapphire, valued at \$40 million in 2000, down from \$60 million in 1997; commercial production came from alluvial deposits. Jade was discovered in the form of nephrite, at the world's largest identified resource, in the Eyre Peninsula. Australia produced most of the world's chrysoprase, known as Australian jade. Other gemstones produced in the country include agate, amethyst, chiastolite, emerald

(aquamarine), garnet (25,000 tons in 2000), rhodonite, topaz, tourmaline, turquoise, and zircon. The value of gemstones produced in 2000 other than opal and sapphire was \$16 million, up from \$1.5 million in 1996.

Iron ore production in 2000 was 171 million tons, a 13% increase over 1999, following an average 3% decline in the 1990s; 97% percent of iron ore came from the Pilbara region. Reserves were estimated to be 15,500 million tons. BHP Iron Ore's Mining Area C—its next generation of greenfields mines, with a 4-billion-ton iron ore resource—anticipated an initial capacity of 5 million tons per year of ore throughput, with the potential to increase to 20 million tons per year. Perth-based Portman expected to quadruple iron ore production at its Koolyanobbing Mine to 8 million tons per year, and it was scheduled to produce 1.2 million tons per year of remnant premium-grade (68.5% iron) hematite fines on Cockatoo Island over two years. Hamersley Iron received government approval in 2000 to expand its Yandicoogina iron ore mine from 15 million tons per year to 20 million tons per year, to meet demand for its low-alumina, pisolitic, goethite-hematite fines ore.

Australia produced 5.38 million tons of bauxite in 2000, representing 40% of world output, with reserves of 3,800 million tons. Bauxite deposits in northern Queensland were among the world's largest; those in the Northern Territory were also in production.

The country produced 830,000 tons of contained copper in 2000, a 12% increase from 1999 and up from 560,000 in 1997. Reserves were estimated to be 22.2 million tons. WMC's Olympic Dam underground mine, in South Australia, was the country's largest copper mine, and a \$1.1 billion expansion program was expected to increase production from 200,000 tons per year to 245,000. Production of gold and silver at the mine in 1999 was 2,426 kg and 26,438 kg, respectively.

Zinc output in 2000 was 1.4 million tons, 16% of world output, with reserves of 32 million tons. The McArthur River base-metal mine, in the Northern Territory, had record-setting tonnages of bulk concentrate.

In 2000, the country produced 1.6 million tons of manganese ore (48% manganese content), with reserves of 134 million tons. Groote Eylandt Mining Co. mined about 10% of the world's manganese at its 2.4-million-ton capacity Eylandt open cut operations, in the Gulf of Carpentaria. Other 2000 production figures in tons were: alumina, 15.7 million; lead, 678,000 (23% of world production, and reserves of 14.6 million tons); nickel, 168,000, all from Western Australia, with reserves of 10.6 million tons; and tin, 9,146, 5% of the world's tin, all by Australia's only producer, Renison Bell Mine, in Tasmania, with reserves of 100,900 tons.

Australia had a substantial portion of the world's mineral sand resources—about 29% for ilmenite, 31% for rutile, and 46% for zircon—and in 2000 produced 28% of the world's ilmenite (2.2 million tons, with reserves of 180.9 million), 55% of the world's rutile (237,000 tons, with reserves of 19.8 million), and 42% of the world's zircon, with reserves of 26.3 million tons. The dominant producer of zircon was Iluka Resources, with a capacity of 300 tons per year. Australia was also one of the world's leading producers of titanium and zirconium (373,000 tons in 2000). Gwalia Consolidated was the world's largest producer of lithium minerals (spodumene) and of tantalum in the form of concentrates, supplying a quarter of the world's annual tantalum requirements. Reserves were estimated at 156,000 tons lithium and 24,700 tons of tantalum. In 2000, the Greenbushes Mine, south of Perth, was the world's largest and highest-grade resource for spodumene, 64,983 tons of which was produced in the country, down from 117,094 in 1996. Gwalia controlled the world's largest stock of tantalum resources and produced 415 tons from two operations in Western Australia.

Other industrial minerals produced in Australia in 2000 included clays, diatomite, gypsum (3.8 million tons), limestone (12 million tons), magnesite (350,000 tons, up from 281,000 the previous year, with reserves of 246 million tons), phosphate rock (805,000 tons, up from 1,200 in 1999), salt, sand and gravel, silica (2.5 million tons), and dimension stone (100,000 tons).

## 27 ENERGY AND POWER

Between 1982/83 and 1993/94, energy consumption increased 36% for industrial, commercial, and residential use, according to the Australian Bureau of Statistics. Because of its relatively scant hydroelectric resources and only recently discovered oil, Australia has had to rely on coal-burning steam plants for about three-quarters of its public power requirements. The remainder has been supplied by hydroelectricity, gas turbines, and internal combustion generators. In 2000, net electricity generation was 200 billion kWh, of which roughly 90% came from fossil fuels, 8% from hydropower, none from nuclear energy, and 2% from other sources. In the same year, consumption of electricity totaled 188.5 million kWh. Total installed capacity at the beginning of 2001 was 42.7 million kW.

Major electric power undertakings, originally privately owned and operated, were by 1952 under the control of state organizations. In the early 1990s however, many of the Australian state governments began privatizing sections of their energy utilities. Manufacturing has been developed most extensively in or near coal areas, and distribution of electricity to principal users is therefore relatively simple. All major cities except Perth use 240-volt, 50-cycle, three-phase alternating current; Perth has 250-volt, 40-cycle, single-phase alternating current.

The Snowy Mountains hydroelectric scheme in southeast New South Wales, Australia's most ambitious public works project, comprises 7 power stations, a pumping station, 16 large and many smaller dams, and 145 km (90 mi) of tunnels and 80 km (50 mi) of aqueducts. It provides electricity to the Australian Capital Territory, New South Wales, and Victoria. The project took 25 years to complete and has a generating capacity of 3,740 MW (about 10% of Australia's total generating capacity). The Snowy Mountains scheme and other large power projects in New South Wales, Victoria, and Tasmania have greatly increased the nation's aggregate installed capacity. The only state with water resources sufficient for continuous operation of large hydroelectric power stations is Tasmania, which possesses about 50% of Australia's hydroelectric energy potential. Production and use of such power is on the increase throughout the country, however.

As of 2002 Australia was the world's fourth-largest coal producer. Since 1986, it has been the world's largest exporter of coal. In that time exports have doubled, reaching 162 million tons by 1997. Exports of black coal alone totaled about 85 million tons in 2001. In that year exports account for more than half of total coal production. The major market is Japan, which imports about 50% of Australia's coal exports. At home, coal supplied 44% of the country's energy as of 2002. Production in 2000 amounted to 337.2 million tons; around 80% of Australia's coal was bituminous and 20% was lignite. New South Wales and Queensland account for more than 95% of Australia's black coal production and virtually all its exports. Australia has over 55 billion tons of recoverable reserves of bituminous coal, an amount that could satisfy production levels for about 260 years at current levels of demand.

In early 1983, Alcoa Australia signed a contract with the Western Australian State Energy Commission, at an estimated cost of A\$11.2 billion, to supply natural gas from the Northwest Shelf (the North West Gas Shelf Project—NWGSP). In 1985, eight Japanese companies agreed to buy 5.84 million tons of liquefied natural gas (LNG) a year from 1989 to 2009. Capacity

has continued to increase thanks to completion of additional offshore platforms and onshore facilities. The A\$4 billion expansion of the North West Shelf LNG Project added seven million tons to LNG production when it began operation in 2003. Natural gas reserves were estimated at 2.5 trillion cu m (88 trillion cu ft) at the beginning of 2002 (more than double the figure for 2001). In early 1992, petroleum exploration began in the Timor Sea; the area had been off limits for over a decade in order to establish a zone of cooperation with Indonesia. In 2001 Australia, Phillips Petroleum, and the newly independent state of East Timor renegotiated arrangements for development of the Bayu Undan oil field in the Timor Sea, with 90% of the royalties going to East Timor.

Oil production, which began in 1964, totaled 633,000 barrels per day in 2001; reserves in 2002 were estimated at 3.5 billion barrels, a 20% increase over the figure for 2001, thanks to a record amount of exploration activity and the resulting new discoveries. Commercially exploitable uranium reserves are estimated at 474,000 tons. Rapid increases in demand for oil have outpaced supply, leaving Australia with a growing oil deficit. It is estimated that self-sufficiency in oil could plummet to only 40%.

## 28 INDUSTRY

In proportion to its total population, Australia is one of the world's most highly industrialized countries. The manufacturing sector has undergone significant expansion in recent years and turns out goods ranging from traditional textiles and processed foodstuffs to automobiles, chemicals, specialty steels and plastics, to elaborately transformed manufactures (ETMs), such as high speed ferries, telecommunications equipment and motor vehicles, which in 2001 made up about 23% of its total exports. According to the Australian Bureau of Statistics, the leading manufacturing industries on the basis of sales in 2001 were food and beverage manufacturing (22%); machinery and equipment manufacturing (20%); metal product manufacturing (18%), and petroleum, coal, chemical and associated product manufacturing (15%). In 2002 and 2003 other strong performers are expected to be printing, publishing, food processing, petroleum products, and machinery and equipment industries. In 1995, manufacturing accounted for \$48.8 billion, or about 15% of GDP. By 2000, the value of manufactures had fallen in absolute and relative terms, to \$45.5 billion, or about 13% of GDP, continuing 20 years of post-industrial transformation to a services-dominated economy. In 2000, however, manufacturing grew by 4%, above the overall economy's rate of 3.2%. Industry as a whole, which accounted for 31% of the GDP, grew by an annual average of 1.3% between 1987 and 1997. The Asian crisis caused metals and machinery and equipment sales to fall by about 5% in 1998; but the food and beverages, petrochemicals, and printing industries averaged growth of 6%.

Australia is self-sufficient in beverages, most foods, building materials, many common chemicals, some domestic electrical appliances, radios, plastics, textiles, and clothing; in addition, most of its needed communications equipment, farm machinery (except tractors), furniture, leather goods, and metal manufactures are domestically produced. Recent years have seen the rapid growth of high-tech industries including aircraft, communications and other electronic equipment, electrical appliances and machinery, pharmaceuticals, and scientific equipment, and the government has supported the growth of these new sectors. High-tech industry contributes a substantial amount to the economy, with an annual growth rate of 20% expected until 2010. Many manufacturing companies are closely connected—financially and technically—with manufacturers in the European Union, the United States, or Asia.



## 29 SCIENCE AND TECHNOLOGY

Two organizations support most of Australian government research and development. The Commonwealth Scientific and Industrial Research Organization (CSIRO), headquartered in Melbourne and founded in 1926, is an independent government agency that supports research and development in all fields of the physical and biological sciences except defense science, nuclear energy, and clinical medicine. The Defense Science and Technology Organization (DSTO), headquartered in Canberra, supports military research and development by providing scientific and technological assistance to the Australian Defence Force and Department of Defence.

Several issues dominate current Australian science and technology policy: the concentration of research and development in national research centers; tensions among and between university researchers over allocation of research and development funding resources; effective communication between industry, government, and university researchers; the growing role which industry is playing in support of national research and development; and the role which Australia is playing in international science and technology collaboration. High-technology exports totaled \$1.5 million in 1998.

Government funds about 55% of all research and development and industry about 40%. In 1996, there were 73 agricultural, medical, scientific, and technical professional associations and societies, the foremost of which is the Australian Academy of Science, founded in 1954 by royal charter. The Australian Academy of Technological Sciences and Engineering was founded in 1976. The Australian Science and Technology Council (ASTEC) provides an independent source of counsel for the Australian Prime Minister; its role was augmented in 1986 by the creation of a post for a Minister Assisting the Prime Minister with portfolio for science and technology.

In 1996, Australia had 36 universities offering courses in basic and applied science. In 1987–97, science and engineering students accounted for 24% of college and university enrollments. The Powerhouse Museum in Sydney, the largest museum complex in Australia, has 25 exhibitions in the areas of science, technology, social history, and decorative arts.

## 30 DOMESTIC TRADE

There are many small specialty shops, but in the larger cities department stores sell all kinds of items. Supermarkets have been widely established and telephone shopping and delivery services are becoming popular. The number of franchise companies is growing. Reports indicate that in 1988, there were about 184 business-format franchised companies in the country. By 2002, there were about 747. These franchised businesses are about 2.5 times more successful than non-franchised businesses. Installment selling, called hire purchase, is used in the sale of many products. In the past few years, direct marketing has grown at an annual rate of about 7%. Reliable commercial credit agencies cover all the main cities and many smaller towns.

The usual business hours are from 9 AM to 5 PM, Monday–Friday, with some businesses also open from 9 AM to noon on Saturday. Retail shops generally stay open later, usually with evening hours at least one day a week. Restaurants and convenience stores are generally open to later hours. Many retail establishments are open on Saturday and Sunday. Travelers checks and credit cards are widely accepted. A 10% goods and services tax (GST) replaced wholesale and state sales taxes as of July 1, 2000. The GST applies to most goods and services with a few exceptions, including basic foods, education, and health care.

Most advertising is done through the press, radio, and television. Principal advertising agencies are in Sydney and Melbourne.

## 31 FOREIGN TRADE

Measured by foreign trade volume per capita, Australia is one of the great trading nations, and it continues to show a steady rise in trade volume. Throughout the 1970s, exports regularly exceeded imports. In the early 1980s, however, there was a deficit, which has continued into the 1990s.

Australia is mainly an exporter of primary products and an importer of manufactured and semi-finished goods, although the export of manufactured goods increased by 10% per year during the 1990s. Exports of primary goods accounted for almost 60% of total exports in 1998. Transport or re-export trade is negligible. In recent years, Australia's foreign trade has tended to shift from European markets to developing Asian nations, which now account for nearly 60% of Australia's exports, compared with about 10% in 1975.

Australia's commodity exports are dominated by fossil, mineral, and plant fuels, including coal, lignite, and peat (11%). Wool may only amount to a small percentage (2.5%) of Australia's exports, but Australia supplies the world with almost half of its imported wool. Food products such as wheat, sugar, and meat exports tie with fuel exports as one of the top commodities leaving the country. The top exports in 2000 were as follows:

	% OF COUNTRY TOTAL
Coal, lignite, and peat	8.5
Crude petroleum	6.8
Base metal ores	6.5
Gas, natural and manufactured	5.9
Meat	4.6
Gold	4.5
Aluminum	4.0
Wheat	3.5
Road vehicles	3.0

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

Consumer goods	19.5%
Food	4.2%
Fuels	8.4%
Industrial supplies	20.6%
Machinery	28.4%
Transportation	18.4%
Other	0.6%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	12,600	9,413	3,187
United States	6,344	14,255	-7,911
China (inc. Hong Kong)	5,538	5,569	-31
Korea	5,230	2,937	2,293
New Zealand	3,798	2,739	1,059
Singapore	3,386	2,234	1,152
United Kingdom	2,169	4,175	-2,006
Indonesia	1,673	1,682	-9
Malaysia	1,367	2,591	-1,224
Germany	752	3,583	-2,831

## 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Australia's exports was \$66.3 billion while imports totaled \$68 billion resulting in a trade deficit of \$1.7 billion. Australia's current account deficit reached a high of \$20 billion in 1995; the figure was down to \$18 billion in 1998, or 6% of GDP. Australia's exports in the early 2000s had reflected the increasingly value-added direction of Australian industry. From 1993 to 2000, manufactured exports grew at an average rate of around 8% per year. Primary products remain the

dominant export sector in value terms, however. Exports of mineral and agricultural products accounted for 55% of total merchandise exports in 2000. Nearly half of services credits are accounted for by tourism, while services debits are dominated by transportation services and outbound tourism.

The International Monetary Fund (IMF) reports that in 2001 Australia had exports of goods totaling \$63.7 billion and imports totaling \$61.8 billion. The services credit totaled \$16.2 billion and debit \$16.8 billion. As of 2001, Australia's trade deficit was forecast to improve, with global commodities prices rising, a lower Australian dollar making exports more competitive, and a slowdown in economic growth lowering the demand for imports.

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

<b>Current Account</b>	-8,876
Balance on goods	1,912
Balance on services	-515
Balance on income	-10,294
Current transfers	21
<b>Capital Account</b>	591
<b>Financial Account</b>	8,003
Direct investment abroad	-11,611
Direct investment in Australia	4,394
Portfolio investment assets	-8,690
Portfolio investment liabilities	19,034
Other investment assets	-144
Other investment liabilities	4,416
<b>Net Errors and Omissions</b>	1,378
<b>Reserves and Related Items</b>	-1,096

### 33 BANKING AND SECURITIES

The Reserve Bank of Australia, the central bank, reconstituted in 1960, functions as a banker's bank and financial agent of the federal and some state governments, issuing notes, controlling interest and discount rates, mobilizing Australia's international reserves, and administering exchange controls and government loans. It was formerly connected with the Commonwealth Trading Bank—a general bank—the Commonwealth Savings Bank, and the Commonwealth Development Bank. The banking system has undergone progressive privatization and foreign investment since the deregulation of financial markets in the 1980s under the Wallis Inquiry into the Australian financial system of 1981. In 1996, the government privatized the Commonwealth Banks in the Reserve Bank Act, separating the Commonwealth Banks from the Reserve Bank. Rural credits, mortgage banking, and industrial financing are now administered wholly by private-owned banks. Fifty banks operate in Australia, 35 of which are foreign-owned; the largest banks include National Australia Bank, ANZ, Commonwealth Bank, and Westpac. The Australian Prudential Regulation Authority (APRA) regulates the banks and other financial institutions.

The Australian currency has floated freely since 1983, and was allowed to fall dramatically from 1984 to 1987. The Reserve Bank pointed to an expected upturn in economic activity in 1997 and anticipated a continuation of low inflation. It also indicated that firming economic growth, together with the uncertainties surrounding wage outcomes, made changes to monetary policy settings unlikely. Interest rate cuts were not on the bank's policy agenda, as it waited to see the impact of reductions made in late 1996. From 1996 to 2000, the Australian dollar fell by almost 30% against the US dollar; losing 12% in the first half of 2000 alone. The Reserve Bank increased interest rates a number of times in order to stave off inflation, but the introduction of the 10% GST in July threatened to raise inflation despite monetary policies. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known

as M1—were equal to \$85.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$258.7 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.06%.

The Australian stock market is where equity (shares), units in listed trusts, options, government bonds, and other fixed-interest securities are traded. It is operated on a national basis by the Australian Stock Exchange (ASX), which is responsible for the day-to-day running and surveillance of stock market trading. The ASX was established on 1 April 1987, with the passage of the Australian National Guarantee Fund Act through the Commonwealth Parliament. This Act converted the six former capital city Stock Exchanges into state subsidiaries of the ASX.

### 34 INSURANCE

Australia has one of the most competitive insurance markets in the world, with a large number of insurers competing for business from a small population base. Established in 1987, the Insurance and Superannuation Commission (ISC) was the ultimate regulatory authority for the insurance industry in Australia. It was replaced by the Australian Prudential Regulation Authority. Life insurance firms, through premiums on policies and interest earned on accumulated funds, account for substantial annual savings. The companies invest in government securities, in company securities (including shares and fixed-interest obligations), and in mortgage loans and loans against policies in force. Most loans (to individuals and building societies) are for housing.

At the end of 1998, total assets of the 172 private general insurance companies amounted to approximately A\$56.2 billion. Total assets of the public general life insurance industry for the same time was around A\$25 billion, managed by 17 public insurers. Forty-three life insurance companies were managing A\$175 billion in assets.

### 35 PUBLIC FINANCE

The fiscal year begins 1 July and ends 30 June. After World War II, the Commonwealth government assumed greater responsibility for maintaining full employment and a balanced economy, as well as for providing a wide range of social services. Social security and welfare payments are the largest category of government expenditure. The central government has financed almost all its defense and capital works programs from revenue and has made available to the states money raised by public loans for public works programs. Deficits are common. In the latter half of the 1980s, however, five consecutive years of significant surpluses occurred as a result of expenditure restraints. The late 1990s also saw consistent surpluses. In 2000, the government implemented a 10% goods and services tax (GST) on all items, while income tax and corporate tax rates were cut.

The US Central Intelligence Agency (CIA) estimates that in 2000/2001 Australia's central government took in revenues of approximately \$86.8 billion and had expenditures of \$84.1 billion. Overall, the government registered a surplus of approximately \$2.7 billion. External debt totaled \$176.8 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	100.0%	86,800
Tax revenue	91.0%	78,983
Non-tax revenue	8.1%	7,044
Capital revenue	0.9%	773
EXPENDITURES	95.2%	80,088
General public services	6.7%	5,651
Defense	6.7%	5,606
Public order and safety	0.8%	697
Education	7.3%	6,118
Health	14.1%	11,862
Social security	33.8%	28,403
Housing and community amenities	1.2%	974
Recreation, cultural, and religious affairs	0.9%	780
Economic affairs and services	5.8%	4,878
Other expenditures	12.5%	10,544
Interest payments	5.4%	4,575

### 36 TAXATION

The main taxes (personal and corporate income, payroll, and goods and services tax (GST) are levied by the federal government, but the states and municipalities impose other levies. Federal rates are determined in legislation that is foreshadowed in the budget, presented each August; rates apply to the fiscal year beginning in July, except for company tax rates, which apply to the previous year's income.

In July 2000, the Australian government implemented a complete tax system overhaul with the introduction of a 10% GST on most goods and services, with the exception of basic foods, education, health and some other sectors. The GST replaced most sales taxes and was followed in 2001 by a cut in the corporate tax rate to 30% for both public and private firms. Undistributed profits of private firms are taxed at a higher rate. Nonresident companies pay an additional tax of 5%. Both the federal government and states can levy land taxes, and states levy both stamp duties on various documents and payroll taxes. Excise taxes are levied on alcoholic beverages, tobacco products, luxury cars, coal, kerosene, liquefied petroleum gas, and indigenous crude oil.

As part of the new tax system, federal, state, and territorial governments agreed to fund a First Home Owners Scheme (FHOS) to offset the impact of the new GST on first-time home buyers. A grant of A\$7000 was made available for first-time purchases of new and existing housing. On 9 March 2001 the grant was extended to contracts entered into before 1 January 2002. In December 2001 the additional grant was extended to June 2002 but reduced to A\$3000, but in July 2002, the grant reverted to its original amount of A\$7000 as it was again extended.

Personal taxation is levied by the Commonwealth on a sharply progressive basis. The pay-as-you-earn system (called PAYE) is used. As of 2000, individual tax rates ranged from zero on income up to A\$6,000 to 47% on income over A\$60,001. Social security taxes are included as part of income taxes. Deductions are allowed for dependents, donations, medical expenses, and children's educational expenses, and for payment of life insurance or pension premiums. There is also a pensioner rebate that varies depending on income.

In early 1990, the Australian Taxation Office and the US Internal Revenue Service (IRS) formalized a simultaneous audits agreement to investigate suspected noncompliance with tax laws in both countries.

### 37 CUSTOMS AND DUTIES

Before the 1980s, federal policy was to use the tariff to protect local industries (especially the automobile industry), but a three-decade long program of tariff reduction led to tariff rates of 5% or below in 2000. Textiles and clothes (25%), shoes (15%), and automobile products (15%) had higher duties, but those will be

reduced to 17.5%, 10%, and 10%, respectively, in 2005. The GST of 10% applies for most imports and exports. Tariffs on industrial machinery and capital equipment ordinarily are low where they do not compete with Australian enterprise and machinery and equipment required by new industries may be imported duty-free or at concessional rates under the Project-By-Law Scheme (PBS).

As a contracting party to GATT, Australia consented to a number of tariff reductions after 1947. Under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which went into effect on 1 January 1981, Australia and New Zealand offered the other South Pacific Forum members duty-free or concessional access to their markets. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, abbreviated to CER) opened bilateral trade between the two countries in 1983. Australia is also a member of the Asia Pacific Economic Cooperation (APEC) forum.

The only free-trade zone is the Darwin Trade Development Zone (TDZ), located in the Northern Territory. There is a Manufacturing-in-Bond (MIB) site in Newcastle and several others were on the way in 2000.

### 38 FOREIGN INVESTMENT

Total foreign investment in Australia in 1997/98 stood at A\$587,231 million (about US\$390,098 million at the prevailing exchange rate), according to the Australian Bureau of Statistics (ABS). Two years later, 1999/2000, it had increased 23% to A\$722,250 million (US\$479,498 million), after increases of about 8% in 1998/99 and 15% in 1999/2000. In 2000/01, the nominal increase in total foreign investment was 12%, to A\$809,377 million, but because of the depreciation in Australian dollar, this constituted a decline of 9.8% in US dollar terms, to US\$450.4 billion. Of the total, about 57% is portfolio investment, 26% foreign direct investment (FDI), 2.8% financial derivatives, and 14.3% other investment liabilities. According to figures at June 2000 (the latest available), the United States accounts for the biggest share of total foreign investment, at 30%, including 34% of FDI. The UK is second with 24.8% of total foreign investment, and a 26.5% share of FDI. Countries whose share of FDI in Australia were greater than 2% as of June 2000 are Japan (8.1%), the Netherlands (4.4%), Germany (2.7%), and France (2.6%), all of which had lower total shares than their FDI. For other substantial foreign investors, their share of the total foreign investment—Hong Kong at 3.4%; Singapore at 2.8%, New Zealand at 1.8%, Benelux at 1.3%—exceeded their share of FDI. In all, OECD countries in June 2000 accounted for 88.7% of FDI in Australia, and 73.5% of total foreign investment.

Almost half of total foreign investment, 48.1% as of June 2000, has been in finance and insurance, with investments in manufacturing (13.4%), other industries (11.4%) and mining (8%) making up another third. The most recent focus of foreign investment has been the booming tourist industry, and commercial and residential property development. Hotels and resorts on the north New South Wales and Queensland coasts are attracting capital from abroad, as are large office block and hotel projects in the capital cities.

Australia prefers the inflow of long-term development capital to that of short-term speculative capital. It also welcomes the technical competence usually accompanying foreign investment. Investment incentives include tariff protection, and bounties for the manufacture of certain products. Total foreign ownership is permitted, but ownership in certain sectors is subject to restrictions. In April 2001 the government rejected Royal Dutch/Shell's \$10 billion bid for Woodside Petroleum, Australia's largest-listed oil and gas company, causing some concern that it was retreating from its liberalization policies. The Federal Department of the Treasury regulates foreign investment with the

assistance of the Foreign Investment Review Board (FIRB), which screens for conformity with Australian law and policy. The major legislation governing foreign investment is the Foreign Acquisitions and Takeovers Act of 1975, as amended in 1989, and administered according to regulations issued in 1991, as the country was embarking on its program of economic liberalization. Across the period, foreign investment has risen from below 2% of GDP to over 9%. It is estimated that about 34% of shares traded on the Australian stock exchange are foreign owned.

The IMF estimates that Australia's outward investments have exceeded inward investments by a small amount since 1999/2000 and 2000/01, when net capital outflows amounted to -0.2% of GDP for both years. The preliminary estimate for 2001/02 is net capital flows amounting to -0.1 of GDP.

### 39 ECONOMIC DEVELOPMENT

Commonwealth and state governments devoted special attention to the production and marketing of main primary products, and after 1920, legislation provided subsidies or other marketing aids to certain commodities. Federal and state aid was given to industries established in approved fields of manufacture during the 1970s. The Export Market Development Grant Acts of 1974 provided government assistance in the development of export markets. Recipients were eligible for up to 50% reimbursement for expenses incurred establishing foreign markets for domestic goods. In 1975, the government set up the Export Finance and Insurance Corp. (replacing the Export Payments Insurance Corp.) to provide Australian exporters with insurance and other financial services not readily available commercially, to provide insurance against political risk.

The government endeavors to prevent undue fluctuation in the economy. Price controls were in effect during World War II and part of the postwar period and are now imposed on a few essential household items. As an alternative to price controls, the Commonwealth government, in mid-1975, introduced a policy of wage indexation, allowing wages to rise as fast as, but no faster than, consumer prices. Major labor unions, however, opposed this restraint, which was ended in as world wide 1981, in the wake of the second oil shock and the on-set of global recession. Monetary policy supported recovery from the recession of the early 1980s by holding to a low inflation rate. From the mid-1980s, Australia's government embarked on a basic re-orientation of the economy from inward-looking import substitution industrialization (ISI) to outward-looking export-led growth and liberalization. Key reforms have been unilateral reduction of high tariffs and other protective barriers; letting the Australian dollar float; deregulating the financial services sector; rationalizing and reducing the number of trade unions; privatizing many government-owned services and public utilities, including establishing a fully competitive electricity market, one of only two (with the United Kingdom) among economically developed countries. The transformation and opening of the economy is credited with helping produce, as of March 2001, 43 quarters of uninterrupted expansion (although some data show a decline in 4th quarter, 2000), exceeding in duration the expansions of the 1960s-1970s and the 1980s, which each lasted about 30 quarters. After August 1993, the focus of fiscal policy shifted towards deficit reduction. During this period, the national debt declined from a peak of 19% of GDP in 1995-96, to less than 7% of GDP in 2000/01.

Energy has been a principal growth sector. However, four years' experience with the deregulated electricity market has not all been satisfactory, as the sector has been beset by blackouts, shortages and higher prices. Nevertheless, the Australian government has continued to innovate in this sector. On April 2, 2002, a new and unique market in renewable energy was introduced. Renewable energy from accredited power stations

can earn renewable energy credits (RECs) that can be traded as a new form of currency.

The government has also been particularly aggressive in promoting Australia as an "information economy." It is second in the world after the United States in PC use. In November 2000, it was estimated that 40% of house holds and 56% of businesses have PC's. Research by the Economist Intelligence Unit ranked Australia as second (only to the United States) among 60 countries surveyed in terms of providing an environment conducive to the development of e-business opportunities. In 2000, the new tax system aimed at increasing the government budget while stimulating economic growth in such sectors as tourism/services and high technology.

### 40 SOCIAL DEVELOPMENT

Social Security measures have been in effect since 1908 and cover all residents. Old age pensions are payable to men 65 years of age and over, and to women 61.5 years of age and over, who have lived in Australia continuously for at least 10 years at some stage in their lives. The continuous-residence requirement may be waived for those who have been residents for numerous shorter periods. Disability pensions are payable to persons 16 years of age and older who have lived at least five years in Australia and have become totally incapacitated or permanently blind. The family allowance legislation provides for weekly payments to children under 16 years of age. Widows' pensions are also provided. Employed persons are covered by workers' compensation, and unemployment assistance is provided for those aged 20 to 65. Youths aged between 16 and 20 are eligible for the youth training allowance, administered by the Department of Employment, Education and Training. Work-related sickness and maternity benefits are provided, as well as medical benefits for all residents.

The Sex Discrimination Act of 1984 bars discrimination on the basis of sex, marital status or pregnancy, and in 1992 the Parliament passed amendments that strengthened it significantly. The Office of the Status of Women was created to monitor the position of women in society. Sexual harassment is specifically prohibited by law. Domestic violence remains a problem, particularly in Aboriginal communities. The government has a strong commitment to the welfare of children.

Discrimination on the basis of race, color, descent or national or ethnic origin was prohibited in the Racial Discrimination Act of 1975. Despite these measures, aboriginal Australians have poorer standards of living, are imprisoned more often, and die younger than white Australians.

### 41 HEALTH

Australia is one of the healthiest countries in the world. The common cold and other respiratory infections are the most prevalent forms of illness; arteriosclerosis is the most common cause of death. Water in most cities is good and safe for household purposes and garbage and trash are collected in cities and towns.

All levels of government are concerned with public health, with the municipalities functioning largely as agents for the administration of state policies. State health departments are responsible for infant welfare, school medical and dental services (provided free of charge), treatment and eradication of infectious and contagious diseases and tuberculosis, industrial hygiene programs, maintenance of food and drug standards, public and mental hospitals, and the regulation of private hospitals. The Commonwealth government makes grants for medical research, coordinates state health programs, and maintains specialist medical research institutions and laboratories.

Public sector funding accounts for over two-thirds of health care expenditure in Australia; some is allocated via the central government and some via local authorities. Since the introduction

of Medicare (the national health insurance program) in 1984, the share of funding provided by the federal government has risen. Under the Medicare system, all Australians have access to free care at public hospitals. The plan also meets three-fourths of the bill for private hospital treatment, while patients pay the remainder (and can take out private health insurance to cover this, although comprehensive private medical insurance was abolished in the 1984 act). Total health care expenditure was estimated at 8.6% of GDP as of 1999.

Since 1950, certain drugs have been provided free of charge when prescribed by a medical practitioner. All patients other than pensioners must pay a set amount for every prescription supplied under the scheme; the remainder is met by the government. For those not eligible for free public health care and who have basic medical insurance, the government pays 30% of the scheduled benefit fee for each medical service. Such insurance, including the government contribution, covers 85% of scheduled fees. The federal government provides grants to the states and aboriginal organizations for the development of special health services for aboriginals. As of 1992, aboriginals and Torres Strait Islanders had unacceptably low levels of health. Though, they have access to the same health care system as any other Australian, they are often reluctant to take full advantage of it. Unemployed persons, recent immigrants and refugees, and certain low-income persons are entitled to health care cards that entitle the bearer and dependents to free medical and hospital treatment.

Health services are efficient. Hospitals are generally modern and well equipped, but space often is at a premium. In 1998, there were more than 1,015 acute-care hospitals, of which 734 were public hospitals. As of 1999, there were an estimated 8.5 hospital beds per 1,000 people. Most private hospitals tend to be fairly small and there are a large number of private hospitals run by religious groups. Hospital facilities are concentrated in the states of New South Wales and Queensland, which together account for about half the country's hospitals and hospital beds.

In 1998, Australia had 48,934 employed physicians, of which 20,852 were primary care providers. As of 1999, there were an estimated 2.5 physicians per 1,000 people. In the mid-1990s, there were more than 6,000 dentists and in 1996 there were 218,172 employed nurses, or 9.5 per 1,000 people. Competent general physicians and specialists are available in most cities and the Royal Flying Doctor Service provides medical care and treatment to people living in remote areas.

In 2002, the estimated death rate was 7.25 per 1,000 people. Infant mortality in 2000 was 5 per 1,000 live births. The under-five mortality rate has steadily decreased from 24 in 1960 to 7 in 2000. Between 1980 and 1993, 67% of married women (ages 15-49) used contraception. The 1999 birth rate was 13.2 per 1,000 inhabitants, and the fertility rate in 2000 was 1.8 per woman. The maternal mortality rate was 6 per 100,000 live births in 1995. The estimated life expectancy in 2000 was 79 years. As of 1999, estimated immunization of one-year-old children was as follows: diphtheria, pertussis, and tetanus, 88%; and measles, 89%. In 1999, the incidence of tuberculosis was 6.2 per 1,000 people.

The HIV-1 prevalence in 1999 was 0.15 per 100 adults. As of 1999 the number of people living with HIV/AIDS was estimated at 14,000.

## 42 HOUSING

According to 2001 national census figures, there were about 7,810,352 dwellings in the nation. About 90.5% were occupied private dwellings. Central heating, formerly available only in the most modern and expensive homes and apartments, is now generally available in the coldest areas of the country. Most apartments and houses are equipped with hot-water service, refrigeration, and indoor bath and toilet facilities.

## 43 EDUCATION

Illiteracy is virtually nonexistent except among the aboriginals. Education is compulsory for children from the age of 6 to 15 (16 in Tasmania). Primary education generally begins at six years of age and lasts for six or seven years, depending on the state. Free education is provided in municipal kindergartens and in state primary, secondary, and technical schools. In 1997 primary schools enrolled 1,855,789 students in 8,123 schools, with 103,774 teachers. Secondary schools enrolled 2,367,692 students and employed approximately 104,000 teachers in the same year. Secondary education lasts for five or six years, four years of lower secondary, followed by another one or two years of upper secondary. There are also state-regulated private schools, which are attended by approximately one-third of Australian children. Correspondence courses and educational broadcasts are given for children living in the remote "outback" areas and unable to attend school because of distance or physical handicap. One-teacher schools also satisfy these needs. Although most aboriginal and Torres Strait Islander students use the regular school system, there are special programs to help them continue on to higher education.

Although each state controls its own system, education is fairly uniform throughout Australia. As of 1999, public expenditure on education was estimated at 4.8% of GDP. Education is the joint responsibility of the federal government and each state government and territory. The federal government directly controls schools in the Northern Territory and in the Australian Capital Territory.

Australia has approximately 20 universities in addition to more than 200 technical institutes. There is a state university in each capital city and each provincial area; a national postgraduate research institute in Carberra and a university of technology in Sydney with a branch at Newcastle. There are also a number of privately funded higher-education institutions including theological and teacher training colleges. Adult education includes both vocational and non-vocational courses. Most universities offer education programs for interested persons. In 1997, there were a total of 1,041,648 students and 26,407 teachers in higher-level educational institutes.

## 44 LIBRARIES AND MUSEUMS

The National Library of Australia traces its origins back to 1902, but it was not until 1961 that it was legislatively separated from the Commonwealth Parliamentary Library and made a distinct entity. The National Library is now housed in modern facilities in Canberra and has over 4.7 million volumes. Three other libraries in Australia of comparable size are the library of the University of Sydney (over three million volumes), founded in 1852; the State Library of New South Wales (over 1.9 million volumes), founded in 1826; the State Library of Victoria (over 1.5 million), founded in 1854, and the Library Information Service of Western Australia (2.7 million). The state capital cities have large noncirculating reference libraries, as well as municipal public circulating libraries. The university libraries of Adelaide, Brisbane, Canberra, Melbourne, Monash, New South Wales, and Queensland all have sizable collections. Recent years have seen programs with increased cooperation between libraries, which has resulted in increased service. The Australian Institute of Aboriginal Studies in Acton has a specialized collection of 15,000 volumes, and dozens of museums and cultural centers house other specialized collections.

There are about 2,000 museums in Australia, of which over 200 are art museums. A national art collection has been assembled in the Australian National Gallery at Canberra, which was opened to the public in October 1982. The National Museum of Australia, founded 1980 in Canberra, exhibits Australian history and social history. In 2001 the museum opened

new facilities in a stunning architectural structure on the shores of Lake Burley Griffin. There are eight other major museums, two each in Sydney and Melbourne and one in each of the other state capitals. Of note in Melbourne are a Performing Arts Museum (1978); the Ancient Times House (1954); and the Jewish Museum of Australia. The Melbourne Museum, completed in 2000, became the largest museum in the southern hemisphere. Sydney houses the Australian National Maritime Museum (1985), the Museum of Contemporary Art (1979) and the Nicholson Museum of Antiquities (1860). Some of the smaller cities also have museums. The National Gallery of Victoria in Melbourne has a fine collection of paintings and other artworks, and the South Australian Museum in Adelaide has excellent collections relating to Australian entomology, zoology, and ethnology. Botanical gardens are found in every capital city.

#### 45 MEDIA

On 1 July 1975, responsibility for the nation's postal service was vested in the Australian Postal Commission, and for telecommunications in the Australian Telecommunications Commission; previously these functions had been administered by the Department of the Postmaster General. Local and long-distance telephone services are rated highly. As of 2000 there were 10 million mainline telephones in use, about one for every two Australians. The same year, there were about 8.6 million cellular phones in use nationwide. Nearly 99% of the total service is automatic.

The government administers and supervises broadcasting through the Australian Broadcasting Commission, which operates a nationwide noncommercial radio and television service; the Australian Broadcasting Tribunal, which licenses and regulates commercial broadcasters; and the Special Broadcasting Service, which prepares and broadcasts multilingual radio and television programs. Federal government stations are financed from budget revenues, and the private commercial stations derive their income from business advertising. As of 1999 there were 262 AM and 345 FM radio stations and 104 television stations. In 2000, there were 1,908 radios and 738 television sets for every 1,000 people. In 2001, there were 603 Internet service providers serving 10 million subscribers.

In general, news is presented straightforwardly, and political criticism is considered fair and responsible. The *Australian*, one of only two national newspapers, was established in 1964 and is published in all state capitals. It is independent and had an estimated daily circulation in 1999 of 153,000. The other national daily, the *Australian Financial Review*, had a Monday–Friday average circulation of 78,000 in the same year.

Other leading dailies and their estimated 2002 circulation figures are listed in the following table:

	ORIENTATION	CIRCULATION
<i>Herald-Sun</i> (Melbourne)	Conservative	575,320
<i>Daily Telegraph-Mirror</i> (NSW)	NA	442,000
<i>Sydney Morning Herald</i>	Conservative	231,510

Major Sunday newspapers include the *Sun-Herald* (613,000) and the *Sunday Telegraph* in Sydney, and the *Sunday Mail* in Brisbane (598,070).

The major news agency is the Australian Associated Press, founded in 1935; it has been associated with Reuters since 1946. Many international news services have bureaus in Sydney.

Though the Australian constitution does not have specific guarantees of freedom of expression, the High Court has, in two decisions, declared that freedom of political discourse is implied. The government is said to respect all such rights in practice.

#### 46 ORGANIZATIONS

Chambers of commerce and chambers of manufacture are active throughout Australia, especially in the state capital cities; the

Australian Chamber of Commerce (1091) coordinates their activities. The Australia Council (founded in 1943) encourages amateur activities in the arts and sponsors traveling exhibitions of ballet, music, and drama. Theatrical, musical, and dance organizations are present in the larger cities and towns. There are professional associations or scholarly societies in the fields of architecture, art, international affairs, economics, political and social science, engineering, geography, history, law, literature, medicine, philosophy, and the natural sciences. Many publish scholarly journals. Several sports organizations are present. Skiing and tobogganing clubs function in the mountainous areas. Sydney, Melbourne, Hobart, and several other cities have large yacht clubs. Every state capital city has swimming and surfing clubs.

There are numerous youth organizations. One of the most prominent is the National Union of Students of Australia (NUSA), which was founded in 1987 by uniting the existing student unions in the Australian states. It now represents the concerns and interests of over 250,000 students. The President of NUSA has a position on the Higher Education Council, which advises the Australian Minister for Employment, Education, and Training. Other youth groups include the Australian Youth Hostel Association, Student Services of Australia, Tertiary Catholic Federation of Australia, the YMCA and YWCA, Young Liberal Movement, Young National Party, and Young Socialist League. Scouting organizations are also active throughout the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Australia's natural tourist attractions are the Great Barrier Reef, a mecca for scuba divers; the varied and unusual flora and fauna; and the sparsely inhabited outback regions, which in some areas may be toured by camel. Other attractions include Ballarat and other historic gold-rush towns near Melbourne; wineries, particularly in the Barossa Valley, 55 km (34 mi) northeast of Adelaide; Old Sydney Town, north of Sydney, a recreation of the Sydney Cove Settlement as it was in the early 19th century; and the arts festivals held in Perth every year and in Adelaide every two years, featuring foreign as well as Australian artists.

Among the sports that lure tourists are surfing, sailing, fishing, golf, tennis, cricket, and rugby. Melbourne is famous for its horse racing (Australia's most celebrated race is the Melbourne Cup) and for its 120,000-capacity cricket ground, reputedly the biggest in the world.

Except for nationals of New Zealand and certain other Commonwealth countries, visitors must have valid passports issued by an Australian or British consul or passport officer. They must also be in possession of sufficient funds to maintain themselves while in Australia and hold tickets for travel to a destination outside Australia. Immunizations are required only of tourists coming from an infected area.

The government actively promotes tourism. In 2000, Australia attracted 4,946,200 foreign visitors. Typically, most visitors come from East Asia and the Pacific region. That year there were 194,926 hotel rooms with 567,546 beds and an occupancy rate of 58%. Tourist receipts that year totaled over US\$8 billion. In 2002, the US Department of State estimated the daily cost of staying in Melbourne at US\$233 and in Sydney, at US\$175.

#### 48 FAMOUS AUSTRALIANS

The most highly regarded contemporary Australian writer is Patrick White (1912–90), author of *The Eye of the Storm* and other works of fiction and winner of the 1973 Nobel Prize for literature. Other well-known novelists are Henry Handel Richardson (Henrietta Richardson Robertson, 1870–1946), Miles Franklin (1879–1954), Christina Stead (1902–83), and Thomas Michael Keneally (b.1935). Henry Lawson (1867–1922)

was a leading short-story writer and creator of popular ballads. Germaine Greer (b.1939) is a writer on feminism. A prominent Australian-born publisher of newspapers and magazines, in the United Kingdom and the United States as well as Australia, is Keith Rupert Murdoch (b.1931).

Three renowned scholars of Australian origin are Sir Gilbert Murray, O.M. (1866–1957), classicist and translator of ancient Greek plays; Samuel Alexander, O.M. (1859–1938), influential scientific philosopher; and Eric Partridge (1894–1979), authority on English slang. An outstanding bacteriologist was Sir Frank Macfarlane Burnet, O.M. (1899–1985), director of the Melbourne Hospital and co-winner of the 1960 Nobel Prize for medicine. Elizabeth Kenny (1886–1952) made important contributions to the care and treatment of infantile paralysis victims. Sir John Carew Eccles (1903–1997) shared the 1963 Nobel Prize for medicine for his work on ionic mechanisms of the nerve cell membrane. John Warcup Cornforth (b.1917) shared the 1975 Nobel Prize for chemistry for his work on organic molecules.

Among Australia's most prominent film directors are Fred Schepisi (b.1939), Bruce Beresford (b.1940), George Miller (b.1943), Peter Weir (b.1944), and Gillian Armstrong (b.1950); film stars have included Australian-born Errol Flynn (1909–50), Paul Hogan (b.1940), and US-born Mel Gibson (b.1956). Leading Australian-born figures of the theater include the actors Dame Judith Anderson (1898–1992) and Cyril Ritchard (1898–1977) and the ballet dancer, choreographer, and stage actor and director Sir Robert Murray Helpmann (1909–86). Musicians of Australian birth include the operatic singers Dame Nellie Melba (1861–1931), John Brownlee (1901–69), Marjorie Lawrence (1907–79), and Dame Joan Sutherland (b.1926) and the composers Percy Grainger (1882–1961), Arthur Benjamin (1893–1960), Peggy Glanville-Hicks (1912–1990), and Peter Joshua Sculthorpe (b.1929). Popular singers include Helen Reddy (b.1941) and Olivia Newton-John (b.UK, 1948). Alfred Hill (1870–1960) is regarded as the founder of the art of musical composition in Australia. Albert Namatjira (1902–59), an Aranda aboriginal, achieved renown as a painter, as has Sir Sidney Robert Nolan (b.1917). The aviator Sir Charles Edward Kingsford-Smith (1897–1935) pioneered flights across the Pacific Ocean. A popular figure of folklore was the outlaw Ned (Edward) Kelly (1855?–80).

In recent decades, the tennis world was dominated by such Australian players as Frank Sedgman (b.1927), Lewis Hoad (1934–94), Kenneth Rosewall (b.1934), Rod (George) Laver (b.1938), John David Newcombe (b.1944), and Evonne Goolagong Cawley (b.1951). Sir Donald George Bradman (b.1908) was one of the outstanding cricket players of modern times. Record-breaking long-distance runners include John Landy (b.1930) and Herb Elliott (b.1938). Jon Konrads (b.1942) and his sister Ilsa (b.1944) have held many world swimming records, as did Dawn Fraser (b.1937), the first woman to swim 100 meters in less than a minute, and Murray Rose (b.1939).

The principal modern Australian statesman is Sir Robert Gordon Menzies (1894–1978), who served as prime minister from 1939 to 1941 and again from 1949 to 1966. Subsequent prime ministers have included Edward Gough Whitlam (b.1916), who held office from 1972 to 1975; John Malcolm Fraser (b.1930), who succeeded Whitlam late in 1975; and Robert James Lee Hawke (b.1929), who served from 1983–91.

## 49 DEPENDENCIES

Since 1936, Australia has claimed all territory in Antarctica (other than Adélie Land) situated south of 60°s and between 45° and 160°E, an area of some 6.1 million sq km (2.4 million sq mi), or nearly 40% of the continent. Three scientific and exploratory bases are now in operation: Mawson (established February

1954), Davis (established January 1957), and Casey (established February 1969).

### Ashmore and Cartier Islands

The uninhabited, reef-surrounded Ashmore Islands, three in number, and Cartier Island, situated in the Indian Ocean about 480 km (300 mi) north of Broome, Western Australia, have been under Australian authority since May 1934. In July 1938, they were annexed as part of the Northern Territory. Cartier Island is now a marine reserve.

### Christmas Island

Situated at 10°30' S and 105°40' E in the Indian Ocean, directly south of the western tip of Java, Christmas Island is 2,623 km (1,630 mi) northwest of Perth and has an area of about 135 sq km (52 sq mi). Until its annexation by the UK in 1888, following the discovery of phosphate rock, the island was uninhabited. The total estimated population in 2002 was 474, of whom 70% were Chinese and 10% were Malay. The only industry was phosphate extraction. The governments of Australia and New Zealand decided to close the mine in December 1987. Christmas Island was transferred from the UK to Australia on 1 October 1958. Abbott's booby is an endangered species on the island.

### Cocos (Keeling) Islands

The Territory of Cocos (Keeling) Islands is a group of coral atolls consisting of 27 islands with a total land area of 14 sq km (5 sq mi) in the Indian Ocean, at 12°5' S and 96°53' E, about 2,770 km (1,720 mi) northwest of Perth. The estimated population of the two inhabited islands was 632 in 2002. A British possession since 1857, the islands were transferred to Australia in 1955 and are administered by the minister for territories. In 1978, the Australian government bought out the remaining interests (except for personal residences) of the Clunies-Ross heirs on the islands. The climate is pleasant, with moderate rainfall. Principal crops are copra, coconut oil, and coconuts. The airport is a link in a fortnightly service between Australia and South Africa.

### Coral Sea Islands

The Coral Sea Islands were declared a territory of Australia in legislation enacted during 1969 and amended slightly in 1973. Spread over a wide ocean area between 10° and 23°30' S and 154° and 158°E, the tiny islands are administered by the minister for the Capital Territory and have no permanent inhabitants—although there is a manned meteorology station on Willis Island.

### Territory of Heard and McDonald Islands

Heard Island, at 53°6' S and 72°31' E, about 480 km (300 mi) southeast of the Kerguelen Islands and about 4,000 km (2,500 mi) southwest of Perth, is about 910 sq km (350 sq mi) in size. Bleak and mountainous, it is dominated by a dormant volcano, Big Ben, about 2,740 m (8,990 ft) high. There was a station at Atlas Cove from 1947 to 1955, but the island is now uninhabited and is visited occasionally by scientists. Just north is Shag Island, and 42 km (26 mi) to the west are the small, rocky McDonald Islands. The largest island of the group was visited for the first time, it is believed, on 27 January 1971, by members of the Australian National Antarctic Expedition. The territory was transferred from the UK to Australia at the end of 1947.

### Macquarie Island

Macquarie Island, at 54°30' S and 158°40' E, is about 1,600 km (1,000 mi) southeast of Hobart. The rocky, glacial island, 34 km (21 mi) long and about 3 to 5 km (2 to 3 mi) wide, is uninhabited except for a base maintained at the northern end since February 1948. Macquarie Island has been a dependency of Tasmania since the early 19th century. At the most southerly point, the island has what is believed to be the biggest penguin rookery in the world.

Two small island groupings are off Macquarie Island: Bishop and Clerk, and Judge and Clerk.

### Norfolk Island

Norfolk Island, with an area of 36 sq km (14 sq mi), is situated at 29°3' S and 167°57' E, 1,676 km (1,041 mi) east-northeast of Sydney. Discovered in 1774 by Capt. James Cook, it was the site of a British penal colony during 1788–1814 and 1825–55. In 1856, it was settled by descendants of the *Bounty* mutineers. As of 2002, the estimated permanent population was 1,866. Transport is almost exclusively by motor vehicle. The soil is fertile and the climate conducive to the growing of fruits and bean seed, as well as the famed Norfolk Island pine. Tourism is also important. As of 2003, endangered species on Norfolk Island included the gray-headed blackbird, Norfolk Island parakeet, the white-breasted silver-eye, the green parrot, the Morepork (Boobook owl), and the Bird of Providence (Providence Petrel). In 1996, Phillip Island was added to the Norfolk Island National Park.

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# AZERBAIJAN

Azerbaijan Republic  
*Azərbaycan Respublikası*

**CAPITAL:** Baku

**FLAG:** Three equal horizontal bands of blue (top), red, and green; a crescent and eight-pointed star in white are centered in the red band.

**ANTHEM:** *Azerbaijan National Anthem*, composed by Uzeyir Hajibeyov.

**MONETARY UNIT:** The manat, consisting of 100 gopik, was introduced in 1992 and remains tied to the Russian ruble with widely fluctuating exchange rates. As of May 2003, 1 manat = \$0.000204 (or \$1 = 4,909 manat).

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

**HOLIDAYS:** New Year's Day, 1 January; International Women's Day, 8 March; Novruz Bayrom (Holiday of Spring), 22 March; Day of the Republic, 28 May; Day of Armed Forces, 9 October; Day of State Sovereignty, 18 October; Day of National Revival, 17 November; Universal Azeri Solidarity Day, 31 December.

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

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

Azerbaijan is located in southeastern Europe/southwestern Asia between Armenia and the Caspian Sea. Comparatively, Azerbaijan is slightly smaller than the state of Maine with a total area of 86,600 sq km (33,400 sq mi). This area includes the Nakhichevan Autonomous Republic and the Nagorno-Karabakh Autonomous Oblast. Azerbaijan shares boundaries with Russia on the N, the Caspian Sea on the E, Iran on the S, Armenia on the W, and Georgia on the NW. Azerbaijan's boundary length totals 2,013 km (1,251 mi). Azerbaijan's capital city, Baku, is located on the Apsheron Peninsula that juts into the Caspian Sea.

## <sup>2</sup>TOPOGRAPHY

The topography of Azerbaijan features the large, flat Kura-Aras Lowland (much of it below sea level) surrounded on three sides by mountains. The Great Caucasus Mountains are to the north, the Lesser Caucasus Mountains are to the southwest, and the Talish Mountains are in the south along the border with Iran. The Karabakh Upland lies in the west. About 19% of Azerbaijan's land is arable with approximately 16% under irrigation.

The Nakhichevan exclave lies to the west, separated from the rest of Azerbaijan by Armenia. Nakhichevan also shares borders with Turkey and Iran.

## <sup>3</sup>CLIMATE

The country's climate is subtropical in the eastern and central parts. In the mountainous regions the climate is alpine-like. The southeastern section of the country has a humid subtropical climate. The average temperature in the capital, Baku, in July is 25°C (77°F). In January the average temperature is 4°C (39°F). Rainfall varies according to climate zones. The average rainfall for most of the country is only about 15 to 25 cm (6 to 10 in). However, at the highest elevations of the Caucasus and in the Lankaran lowlands, annual rainfall can exceed 100 cm (39 in).

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

The country's flora and fauna is rich and varied. There are 16 nature reserves and more than 28 forest reserves and hunting farms.

## <sup>5</sup>ENVIRONMENT

Azerbaijan's current environmental problems result in part from the effects of the economic priorities and practices of the former Soviet Union. General mismanagement of the country's resources has resulted in a serious threat to several areas of the environment. UN agencies report severe air and water pollution in Azerbaijan, which ranks among the 50 nations with the world's highest level of carbon dioxide emissions. In the mid-1990s, carbon dioxide emissions totaled 63.9 million metric tons per year, or 8.76 metric tons per capita. The combination of industrial, agricultural, and oil-drilling pollution has created an environmental crisis in the Caspian Sea. These sources of pollution have contaminated 100% of the coastal waters in some areas and 45.3% of Azerbaijan's rivers. In 2001, only 78% of the total population had access to safe drinking water. The pollution of the land through the indiscriminate use of agricultural chemicals such as the pesticide DDT is also a serious problem. Azerbaijan's war with Armenia has hampered the government's ability to improve the situation. Due to the severity of pollution on all levels, the country's wildlife and vegetation are also seriously affected. From the mid-1980s to mid-1990s, the amount of forest and woodland declined by 12.5%. As of 2001, 11 species of mammals, 8 species of birds, 5 species of fish, and 13 species of reptile were endangered. Endangered species include the Barbel sturgeon, beluga, the Azov-Black Sea sturgeon, the Apollo butterfly, and the Armenian birch mouse.

## <sup>6</sup>POPULATION

The population of Azerbaijan in 2003 was estimated by the United Nations at 8,370,000, which placed it as number 89 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age,

with another 32% 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 0.89%, with the projected population for the year 2015 at 9,450,000. The population density in 2002 was 94 per sq km (244 per sq mi).

It was estimated by the Population Reference Bureau that 57% of the population lived in urban areas in 2001. The capital city, Baku, had a population of 1,918,000 in that year. Other urban centers include Gyanja (formerly Kirovabad) with a population of about 294,000 people, and Sumgait with about 273,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.5%. There has been an additional influx of foreign refugees to the urban centers in recent years.

## 7 MIGRATION

As a result of the war with Armenia, which started in 1988, more than 1,000,000 people have been forced to leave the region. According to government estimates of Azerbaijan, there are 616,546 (8% of the total population) internally displaced persons as of 1999. Most of these persons were displaced between 1993 and 1994. Since May 1994, when the cease fire was enacted, only 60,000 persons have been able to return to their homes along the front line. Also as of 1999, Azerbaijan hosts 233,682 refugees. Most are Azeri refugees from Armenia. The Law on Citizenship allows for the automatic acquisition of Azerbaijani citizenship by refugees from Armenia. Also, there are some 48,000 Meshketians recently arrived from Central Asia. The Meshketians were originally deported from Georgia under the Stalin era.

Between 1989 and 1995, there was an emigration of Slavic peoples from Azerbaijan. These included 169,000 Russians, 15,000 Ukrainians, and 3,000 Belarusians as they emigrated back to their homelands. As of 2001 there were 148,000 migrants living in Azerbaijan, with less than 1% of these being refugees. However, as of that year the net migration rate was -0.8% per thousand with a total loss of 7,000 people. The government views this migration level as satisfactory.

## 8 ETHNIC GROUPS

In 1998 estimates, 90% of the population was Azeri; about 3.2% were Dagestani peoples; 2.5% were Russian; another 2% were Armenian; and 2.3% were of other ethnic origins. Almost all Armenians live in the separatist Nagorno-Karabakh region.

## 9 LANGUAGES

Azerbaijani (or Azeri) is a language related to Turkish and is also spoken in northwestern Iran. It is traditionally written in Arabic script. In 1995, an estimated 89% of the population spoke Azeri; 3% spoke Russian; 2% spoke Armenian; and 6% other. In 1939, the Soviets introduced a Cyrillic alphabet, with eight special characters.

## 10 RELIGIONS

For most of the 20th century, from 1920 to 1991, the Azerbaijan Soviet Socialist Republic observed the restrictions in religious belief and practice common throughout the former Soviet Union. According to statistics available after the declaration of independence of 30 August 1991, the population was 87% Muslim (70% of whom were Shi'as, and 17% were Sunnis). Because of the Persian influence on Azerbaijan, most Azerbaijanis are Shiites, even though all the other Turkic groups of the former Soviet Union are Sunni Muslims. In 1995 estimates, 93.4% of the population were Muslim; 2.5% were Russian Orthodox; 2.3% were Armenian Orthodox; other religions accounted for only 1.8%.

Islam (both Shi'a and Sunni), Russian Orthodox, and Judaism are considered to be traditional religions of the country. There are small communities of Evangelical Lutherans, Roman Catholics,

Baptists, Molokans (an older branch of Russian Orthodox), Seventh-Day Adventists, Baha'is, Wahhabist Muslims, Jehovah's Witnesses, and Hare Krishnas.

## 11 TRANSPORTATION

Railroads in Azerbaijan (not including industrial lines) extend some 2,125 km (1,320 mi), with Baku as the hub. In 2002, the highway system totaled 36,700 km (22,805 mi), of which 31,800 km (19,760 mi) were paved. Azerbaijan's major port is at Baku. In 2002 the merchant marine had 54 ships (1,000 GRT or over), totaling 246,051 GRT. Ships from the Caspian fleet have called at some 125 ports in over 30 countries. In 2001 airports numbered 52, of which 9 had paved runways. There are flights from Baku's Bina Airport to more than 70 cities of the former Soviet Union. In 2001, 543,800 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The territory of present-day Azerbaijan has been continuously inhabited since the Paleolithic era. The first evidence of tribal alliances date to the first millennium BC, when such peoples as the Mannaian, the Medes, the Cadusii, the Albanoi, and the Caspian appeared. In the 7th century BC, the state of Media appeared in what now is southern Azerbaijan, growing to cover large portions of the Near East. The Medians were displaced by the Persian dynasty of Achaemenids, who in turn were defeated by Alexander the Great. In the 4th century BC, another state arose which Greek sources called Atropatena, or "Land of the Fire Keepers"; it is this name, reflecting the predominance of Zoroastrianism, which may have given the present state its name. Around the beginning of the common era Atropatena was succeeded by a state called Albania, which the Romans attempted to conquer.

In the 3rd and 4th centuries AD, Azerbaijan existed with fluid boundaries between the Sassanid state in Persia and the Romans, whose battles inflicted great damage, leaving Azerbaijan open to raids by Turkic nomadic tribes from the north, including Khazars and Huns. Outside influence reappeared in the 7th and 8th centuries, when Arabs conquered much of Transcaucasia. As their influence receded, a number of small local states were established, the best known of which was the Shirvanshahs.

In the 11th century Azerbaijan was invaded by Oguz Turks, of the Seljuk dynasty. By the 13th century the gradual displacement of pre-Turkic local languages was complete, although many traces of non-Turkic predecessors remain in the Azerbaijani language. Persian, however, remained the language of art, science, and education.

In the 1230s Azerbaijan was conquered by Genghiz Khan, whose power remained in the Il-Khanid state, which at the end of the 14th century was displaced by the armies of Tamerlane. In the 16th century, the Safawid state emerged, coming to control most of the land between the Syr Darya and the Euphrates, and reestablishing agriculture and commerce destroyed under the Mongols. In the 17th century, the Safawids became Persianized, which made present-day Azerbaijan decline in importance.

In the 18th century Azerbaijan became the intersection of the Turkish, Persian, and Russian empires, as well as the focus of British and French attempts to block Russian expansion. The northern part of the territory was incorporated into Russia in the first third of the 19th century, but the area did not become important until the 1880s, when the area's abundant oil gained commercial importance. The southern portion of what was originally Azerbaijan has remained in Iran, except for the period 1941–46, when it was occupied by Soviet troops.

When the 1917 Russian revolution came, Ottoman Turkish troops moved into Azerbaijan, and later British forces controlled the capital, Baku. The Azerbaijani Musavat, or Equality Party, established a government, declared Azerbaijan's independence,



LOCATION: 40°30' N; 47°0' E BOUNDARY LENGTHS: Total boundary lengths, 2,013 kilometers (1,251 miles); Armenia (west), 566 kilometers (352 miles); Armenia (south), 221 kilometers (137 miles); Georgia, 322 kilometers (200 miles); Iran (south), 432 kilometers (268 miles); Iran (southeast), 179 kilometers (111 miles); Russia, 284 kilometers (177 miles); Turkey, 9 kilometers (6 miles).

and received diplomatic recognition from several states. Azerbaijan was invaded by the Russian Bolsheviks' Red Army in April 1920, and Azerbaijan was declared a Soviet state. In 1922 it was made part of the Transcaucasian Federated Socialist Republic, along with Georgia and Armenia. That was dissolved in 1936, when the three states were each made into separate Soviet Socialist Republics.

In 1988, calls by ethnic Armenians living in Azerbaijan's Nagorno Karabakh (NK) region to be incorporated into the Armenian republic led to open conflict which lasted until 1994. This predominantly Armenian area had been unsuccessfully claimed by the Armenians in the 1920s, at the time of the creation of Soviet Azerbaijan. Inability to solve the NK conflict was one of the problems which ultimately brought down Mikhail Gorbachev and broke apart the USSR. Ethnic and civil violence in January 1990 prompted the occupation of Baku by Soviet armed forces and Moscow's replacement of Abdulrahman Vezirov with Ayaz Mutalibov as republic head. During this period of martial law, the legislature elected Mutalibov as president in May 1990. Independence was declared on 30 August 1991, and Mutalibov

was reaffirmed as president in a popular, uncontested election in September 1991.

In December 1991, NK's Armenians held a referendum (boycotted by local Azerbaijanis) that approved NK's independence and elected a Supreme Soviet, which on 6 January 1992, declared NK's independence and futilely appealed for world recognition. Following a late February 1992 massacre of Azerbaijani civilians in the town of Khojaly in NK, Mutalibov was accused of failing to protect Azeri citizens and forced by the nationalist oppositionist Azerbaijani Popular Front (APF) and others to resign as president. His replacement, legislative head Yakub Mamedov, was also forced to resign in May 1992, in the face of further Azerbaijani military defeats in NK. Mutalibov was then reinstated by loyalists in the Supreme Soviet, but he had to flee two days later, when the APF seized power. Former Soviet dissident and APF leader Abulfaz Elchibey, was elected president in a popular contest in June 1992.

The nationalist government took several moves to cut its ties to Russia, including demanding the withdrawal of Russian troops, refusing to participate as a member of the Commonwealth of Independent States, negotiating with Western firms to develop its oil resources, and improving relations with Turkey. However, military losses in NK increased. In 1993, Heydar Aliyev, who had been the Communist Party leader of the republic from 1971–85 but then was ousted and disgraced by Soviet leader Mikhail Gorbachev, began to press for Elchibey's dismissal.

An abortive attempt by the Elchibey government in June 1993 to disarm paramilitary forces in the town of Ganja precipitated the fall of the government and provided the opportunity for Aliyev to regain power. These forces were led by Suret Huseynov, formerly in charge of troops in NK, who had been fired by Elchibey. Huseynov's forces, supplied with Russian equipment, defeated an Azerbaijani Army attack and began to march on Baku. His government in chaos, Elchibey invited Aliyev to come to Baku, and on 15 June, he endorsed Aliyev's election by the legislature as its new speaker. Elchibey fled to the Nakhchivani Autonomous Republic (NAR) on 17 June. On 24 June 1993, a bare quorum of legislators met and formally stripped Elchibey of presidential powers, transferring them to Aliyev. Huseynov demanded and was given the post of prime minister.

On 3 October 1993, Aliyev was elected president with 98.8% of the vote. The referendum and election were viewed as not "free and fair" by many international observers because of suppression of APF and other opposition participation. In late September 1994, police and others in Baku launched a purported coup attempt. Aliyev darkly hinted at Russian involvement. After defeating the coup attempt, Aliyev also accused Prime Minister Huseynov of major involvement, and Huseynov fled the country. Other coup attempts were reported in 1995 and 1999. All of the alleged coup attempts triggered mass arrests of Aliyev's opponents.

On 11 October 1998, incumbent President Aliyev defeated five other candidates and was elected to a second five-year term, receiving over 76% of 4.3 million votes cast. The major "constructive opposition" candidate running was Etibar Mamedov of the National Independence Party (NIP), who received 11.6% of the vote. Most international observers judged the vote not "free and fair," citing myriad irregularities, though also noting that the election marked some improvement in political pluralism.

The conflict with Armenian separatists over its Nagorno-Karabakh region continues to plague Azerbaijan. Azerbaijan asserts that NK forces occupy over 20% of Azerbaijan's territory both in and around NK. The conflict has resulted in about 30,000 casualties on both sides and over 840,000 Azerbaijani refugees and displaced persons (and over 300,000 Armenians). The Organization for Security and Cooperation in Europe (OSCE) began the "Minsk Group" peace talks in June 1992. A

Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on 27 July 1994 (and reaffirmed a month later). Moscow talks were held by the sides, with token representation by the OSCE, along with Minsk Group talks. With strong US backing, the OSCE at its Budapest meeting agreed in December 1994 to send OSCE peacekeepers to the region under UN aegis if a political settlement could be reached. Russia and the OSCE assented to merge their mediation efforts. France was nominated as a cochair in 1996. This elicited criticism from Azerbaijan that the French had appeared pro-Armenian, leading to the seating of US, French, and Russian cochairs. (Many Azerbaijanis also have voiced reservations about Russia's objectivity as a mediator, citing its defense ties to Armenia.) Direct Armenian-Azerbaijani contacts by the presidents and advisors have also occurred.

Prospects for a negotiated settlement remain elusive because the sides remain far apart on most substantive issues such as the placement and composition of a peacekeeping force and NK's ultimate political status. Personal meetings by the two presidents raised hopes that a statement of intention could be issued at the November 1999 OSCE Summit, but events such as resignations of some Azerbaijani officials apparently opposed to NK proposals, Aliyev's infirmity, and October 1999 assassinations in Armenia (apparently unrelated to the NK talks) appeared to set back progress.

Peace talks between Armenia and Azerbaijan were held in Paris and Florida in 2001, but by December 2002, Lieutenant General Seyran Ohanian, commander-in-chief of the armed forces of NK, warned Azerbaijan that the enclave's army was "better prepared than ever before" and "ready to repulse the enemy" and carry out a successful counteroffensive should conflict begin. President Aliyev in September 2002 told representatives of the Minsk Group that "the people's mood is changing. They are starting to lose hope in a peaceful solution and are coming to the view that we have to recover our land ourselves by whatever means necessary....It has been...nearly ten years since the Minsk Group was created. How much longer can we go on talking about a peace settlement?"

In 2001, the United States lifted a ban on aid imposed during the NK conflict after Azerbaijan provided airspace and intelligence to the United States following the 11 September 2001 terrorist attacks.

In September 2002, construction began on a multibillion-dollar pipeline to carry Caspian oil from Azerbaijan to Turkey via Georgia. The government held a referendum on 24 August 2002 to approve 39 changes to the constitution. Some of the major articles at issue were the abolishment of the proportional system of election of deputies to the national parliament; making the prime minister, not the speaker of the parliament, a caretaker president in case the president is not able to carry out his duties; and giving lower level courts the right to ban political parties. Opposition leaders argued that abolishment of the proportional system would damage the multi-party system in the country and further strengthen the ruling elite. In addition to this, the opposition claimed that President Aliyev intended to appoint his son Ilham prime minister and then retire, thus paving the way for his son to become the next president. President Aliyev also approved adding a provision to the Law on State Secrets, which would make editors and journalists of local mass media accountable for disseminating state secrets. The government claimed that there was nearly 100% support for the constitutional changes with 88% voter turnout, while opposition groups stated turnout was closer to 15%, which would render the vote invalid. Demonstrators called for the resignation of President Aliyev and for holding free and fair elections. Supporters of more than 30 opposition parties, including the major parties Musavat, the Popular Front, the Azerbaijan

Democratic Party and the Azerbaijan National Independence Party, held marches on 14 September 2002 urging the authorities to cancel the results of the referendum. On 27 October and again on 24 November of that year, the opposition parties marched again under the banner of the United Opposition Movement, claiming that over 50,000 people participated in the marches.

### 13 GOVERNMENT

Azerbaijan is a republic with a presidential form of government. Heydar Aliyev assumed presidential powers after the overthrow of his popularly elected predecessor and was elected president in 1993. Aliyev and his supporters from his home region of Nakichevan and elsewhere dominate the government and the legislature. Presidential elections are due to take place in October 2003.

The Azerbaijani constitution was approved by 91.9% of voters in a referendum held in November 1995. It establishes a strong presidency, sets up a new 125-member legislature (the Milli Mejlis), declares Azerbaijani the state language, proclaims freedom of religion and a secular state, stipulates ownership over part of the Caspian Sea, and gives Nakhchiveni Autonomous Republic (NAR) quasi-federal rights. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. It is extremely difficult for the Milli Mejlis to impeach the president. According to the US State Department, corruption is endemic in the government. It also reports that the judicial branch effectively functions as part of the executive branch and is corrupt and inefficient. In practice, the Milli Mejlis too exercises little legislative initiative, with most of its legislation and agenda dictated by the executive branch. The transition to democracy has been impeded by government efforts to hinder the opposition. In NK, political turmoil and war damage have slowed development, and ethnic Azerbaijanis are prevented from returning to the region and surrounding areas by the lack of a peace settlement.

In June 2002, the Constitutional Court ruled that changes to the constitution proposed by President Aliyev did not conflict with the principles of Azerbaijan's basic law. One major change in the constitution concerns what happens if the president retires or becomes incapacitated. Prior to the 24 August 2002 referendum, under the constitution's Article 105, the speaker of parliament assumed the president's duties. Under the new rule, the prime minister, who is appointed by the president and is responsible to him, not the legislature, assumes presidential powers. An amendment to Article 101 changed the threshold for a candidate to be elected president in the first round of voting, from two-thirds to a simple majority. Members of the Milli Mejlis were previously elected on the basis of majority and proportional election systems under Article 83 of the constitution. Under the new provisions, proportional party lists were eliminated and deputies are elected only through winning majorities in districts. Changes to Article 3 forbid holding a referendum on issues that fall under the scope of executive institutions, such as taxes, the state budget, amnesties, elections and appointments to executive positions.

In the November 1995 election, 25 of the seats were allocated through a proportional party list vote and 100 through single-member district balloting. Eight parties were allowed to take part in the party list voting in the legislative elections, but only the Azerbaijani Popular Front (APF) was clearly an anti-Aliyev party. These were the New Azerbaijan (NAP), APF, Azerbaijan Democratic Independence (ADIP), National Independence (NIP), Azerbaijan Democratic Proprietors (ADPP), Motherland, Azerbaijan National Statehood (NSPA), and Alliance for Azerbaijan parties. Aliyev's NAP won most seats in the legislative races. The elections were marred by the harassment and exclusion

of most opposition parties and candidates from participation and by rampant irregularities such as the open stuffing of ballot boxes, according to international observers. Some observers stressed that the elections marked some progress in holding a multi-party vote. Aliyev's NAP candidates ran unopposed in many electoral districts because of the exclusion of opposition candidates. Campaign advertising by most parties was severely restricted on state-owned television, while Aliyev received extensive positive coverage. Legislative elections held in November 2000 saw the NAP and its allies win 108 out of 125 seats in the Milli Mejlis in elections that were criticized by international observers. The APF took the next highest number of seats with 6.

## 14 POLITICAL PARTIES

Nearly three dozen parties are registered, but some opposition parties have been arbitrarily refused registration. Some parties that are deemed explicitly ethnic or religiously based also have been refused registration. Under election legislation passed since Aliyev's accession, a party must have at least 1,000 members to be legally registered. Party membership is forbidden to government officials in agencies of the judiciary, law enforcement, security, border defense, customs, taxation, finance, and the state-run media. Six pro-Aliyev parties participated in the 1995 legislative party list vote, including New Azerbaijan (NAP; formed in November 1992), Azerbaijan Democratic Independence (ADIP; broke off from NIP in late 1993), Motherland (formed in 1990), and the Democratic Entrepreneurs' Party (formed in 1994). Only the NAP gained enough votes to win seats in the party list vote (though these other parties won seats in constituency balloting). Two centrist or opposition parties participated and won seats in the party-list voting: the Azerbaijan Popular Front (APF—formed in 1988) and National Independence Party (NIP; broke off from APF in early 1992). Opposition parties excluded from the party list ballot included Musavat (formed in 1912). All parties are small; NAP is the largest with approximately 100,000 members claimed. NAP, formed by Aliyev, encompasses many of his former Azerbaijani Communist Party (ACP) supporters. The APF was at the forefront of the nationalist and anticommunist movement and its chair, Abulfaz Elchibey, was elected president in 1992. With Aliyev's return to power, APF members and officials have been arrested and harassed. NIP views itself as a moderate nationalist party in "constructive opposition" to Aliyev. Musavat has supported close ties with Turkey and has cooperated on some issues with the APF. The pro-Iranian Islamic Party was stripped of its registration in 1995. Preparing for the 1998 presidential race, in March 1998 46 pro-government political parties and groups formed the Center for Democratic Elections (CDE). Five prominent opposition political leaders and others formed the Movement for Democratic Elections and Electoral Reform (MDEER) in May 1998: Elchibey (the AFP), Isa Gambar (Musavat), Lala Shovkat Hijyeva (Azerbaijan Liberal Party or ALP), former speaker Rasul Guliyev, and Ilyas Ismayilov (Democratic Party of Azerbaijan). The Democratic Party finally achieved registration in early 2000, but co-leader Guliyev remained in forced exile.

Other political parties include the Civil Solidarity Party (CSP), Civic Union Party, Compatriot Party, Justice Party, Liberal Party of Azerbaijan, and the Social Democratic Party of Azerbaijan (SDP).

## 15 LOCAL GOVERNMENT

Soviet-era Azerbaijan was subdivided administratively into one autonomous republic, Nakhichevan, an area separated from the rest of Azerbaijan by a thin strip of Armenian territory, which had its own parliament of 110 members; and an autonomous region, Nagorno-Karabakh (NK). Azerbaijan dissolved NK's

status as an autonomous region in November 1991 in an attempt to reassert central control. NK has claimed an independent existence since December 1991, and a swath of territory around it has been occupied by NK Armenian forces. Azerbaijan has 59 districts (*rayons*) and 11 cities, whose executive heads or mayors are appointed and dismissed by the president. Although the constitution called for the local election of legislative assemblies (councils) by the end of 1997, these elections did not take place until December 1999 (with runoffs in some municipalities in March 2000). In these races, nearly 2,700 municipal and district assemblies were formed. Some 36,000 candidates contested for 22,087 seats in these assemblies. Of these candidates, 18,000 were sponsored by 26 political parties, while others run as independents. The election was not viewed by many international monitors as "free and fair" because of government interference in the electoral process, including the stacking of territorial and precinct electoral commissions with members of the ruling party and other local government supporters, the harassment or disqualification of opposition candidates, and ballot box stuffing. Many of the local assemblies found it difficult to begin work because their roles were somewhat unclear and local executive heads, appointed by Aliyev, proved somewhat reluctant to share power.

## 16 JUDICIAL SYSTEM

The old Soviet court system has been essentially retained, consisting of district courts and municipal courts of first instance and a Supreme Court which usually performs the function of appellate review. However, the Supreme Court also performs the function of court of first instance for some serious cases. District courts consist of one judge and two lay assessors and hear criminal, civil, and juvenile cases. Criminal defendants have the right to an attorney and to appointed counsel, the right to be present at trial, to confront witnesses, and to a public trial.

The 1995 Constitution provides for public trials in most cases, the presumption of innocence in criminal cases, and a defendant's right to legal counsel. Both defendants and prosecutors have the right of appeal. In practice, however, the courts are politically oriented, seeming to overlook the government's human rights violations. In July 1993, Aliyev ousted the Supreme Court chief justice because of alleged political loyalties to the opposition. The president directly appoints lower level judges. The president also appoints the Constitutional Court and Supreme Court judges with confirmation by the legislature.

Prosecutors (procurators) are appointed by the president with confirmation by the legislature. The minister of justice organizes prosecutors into offices at the district, municipal, and republic levels. The constitution provides equal status for prosecutors and defense attorneys before the courts, but in practice the arrest and investigatory powers of the prosecutors have dominant influence before the courts. Judges will often remand a case for further prosecutory investigation rather than render an innocent verdict. Investigations often rely on obtaining confessions rather than on gathering evidence.

According to the US State Department's *Report on Human Rights Practices for 2001* and human rights organizations, the Azerbaijan government's human rights record is poor, although some public policy debate is allowed and human rights organizations operate. The government restricts freedom of assembly, religion, and association. Numerous cases of arbitrary arrest, beatings (some resulting in deaths), unwarranted searches and seizures, and other human rights abuses were reported. Political oppositionists are harassed and arrested, and there are dozens of political prisoners in Azerbaijan, according to the US State Department. There is a moratorium on carrying out death sentences, but prisoners sentenced to death are subject to harsh treatment. The conflict between NK Armenians and Azerbaijanians has contributed to widespread human rights violations by both

sides. Some opposition newspapers are allowed to exist. In the run-up to the October 1998 presidential race, the Aliyev government ordered an end to censorship as a gesture to encourage opposition participation, but cracked down again after the election. Ethnic Lezgins and Talysh have complained of human rights abuses such as restricted educational opportunities in their native languages.

## 17 ARMED FORCES

Azerbaijan had 72,100 active personnel in its armed forces in 2002. Reserves included 300,000 members who had been in the military within the past 15 years. The navy numbered 2,200 and had six patrol craft. The army consisted of 62,000 personnel with equipment including 220 main battle tanks. The Air Force and Air Defense had 7,900 active personnel with 15 attack helicopters and 48 combat aircraft.

Azerbaijan also had an estimated 15,000 people serving in two separate paramilitary units. The defense budget for 1999 was \$121 million, or 2.6% of GDP.

## 18 INTERNATIONAL COOPERATION

Azerbaijan was admitted to the UN on 2 March 1992. The country is also a member of the Black Sea Cooperation Group (BSEC), Council of Europe, USCE, EBRD, Economic Cooperation Organization (Turkey, Iran, Pakistan, Russia, the Central Asian states, and Afghanistan), IMF, Organization of the Islamic States, and UNCTAD. The country is also a member of the CIS and has observer status in the WTO. Foreign relations with Azerbaijan are dictated by the country's continued sovereignty over Nagorno-Karabakh, which would like to become part of Armenia. The United States recognized Azerbaijan's sovereignty on 25 December 1991, and the two countries established diplomatic relations in 1992.

## 19 ECONOMY

Azerbaijan is one of the oldest oil-producing regions of the world. Here in ancient times the Zoroastrians, for whom fire was a sacred symbol, built temples around the "eternal fires" of burning gas vents. At the beginning of the 20th century, as international competition increased in the first great era of economic globalization, Azerbaijan was supplying almost half of the world's oil. As a constituent republic of the USSR it was a leading supplier to the rest of the Union until the focus of Soviet oil development efforts shifted to the Ural mountains and western Siberia during the 1970s and 1980s. Remaining oil reserves are estimated in the BP statistical review of world energy for 2002 to be about 7 billion barrels. For oil, its reserve to production ratio (R/P ratio) of 64.3 is topped only by Sa'udi Arabia and Iran. Proven reserves of natural gas are estimated at 440 billion cu m (15.5 trillion cu ft). In addition, the country is endowed with ample deposits of iron, aluminum, zinc, copper, arsenic, molybdenum, marble, and fire clay.

Azerbaijan boasts a diversified industrial sector that accounts for approximately a third of GDP (2000 est.) up from less than a fifth in 1998, and 15% of employment (including construction), a figure that has remained unchanged. Agriculture, which employs about 40% of the labor force and accounts for 20% of GDP (including forestry), also rests on a relatively diversified base, producing cotton, tobacco, grapes, and a variety of foodstuffs. The transport sector is well developed, integrating the country's various regions and facilitating both domestic and external trade.

Despite its economic potential, Azerbaijan has been slow in making the transition from a command to a market economy. Large state companies continue to dominate the economy and below-market price controls still cover many key commodities. The war with Armenia has also slowed economic growth by disrupting trade ties and draining government revenues. In 1992, Azerbaijan implemented an economic blockade against both

Armenia and the enclave of Nagorno-Karabakh, which is still in effect despite the cease-fire reached in 1994. In 1992 the United States passed Section 907 of the Freedom Support Act, restricting assistance to Azerbaijan until "demonstrable steps" were taken to lift the embargo and cease offensive actions. In January 2002, however, US president George W. Bush waived Section 907 purportedly due to Azerbaijan's support of the US-proclaimed War on Terror. In August 2002, CCC, a Greek-based construction and project management firm, won the tender for laying pipes for the Baku-Tbilisi-Ceyhan (BTC) oil pipeline officially approved September 2002 and scheduled to go into operation in 2005. Trade has traditionally been with Russia and the former Soviet republics and the economy is still greatly affected by events in those countries.

In 1994, Russia, citing its own conflict in Chechnya, closed all rail and road borders with Azerbaijan. Cut off from its major source of production inputs and main outlet for manufactured projects, Azerbaijan's industrial production fell by more than 20% in 1995. Overall, it is estimated that from 1991 through 1995 the economy declined by about 60%. Recently, Azerbaijan has begun to shift trade to Iran and Turkey and away from Russian and Ukraine. The BTC pipeline is designed to avoid Russia. Foreign investment, the majority in hydrocarbons, began a period of steady growth in the late 1990s, and in 2001 the economy registered its fifth straight year of real GDP growth. For 1999 to 2001, based on data supplied by the government of Azerbaijan, growth rates were 7.2%, 11.1% and 8.5%, respectively, with a forecast of about 9% (US State Department estimate) for 2002. Nevertheless, the country's GDP is not expected to reach its 1991 level until 2007.

Localized fighting with Armenia broke out in the spring of 1997 and in the summer of 1999, and efforts to reach a peace agreement have failed to date. The prospects for long-term economic growth have been significantly enhanced in 2002, however, by the cutting of one Gordian knot: the official sanctioning in September 2002 of the BTC pipeline from Baku to the Turkish Mediterranean, which has been pending since the under the country's first production sharing contract (PSC) was agreed to in 1994 with the Azerbaijan International Operating Company (AOIC). The AOIC is an international consortium of companies headed by British Petroleum (BP) as operator with a plurality share of 34.1% share. Actual construction on the BTC pipeline is to begin in March 2003. Azerbaijan's second PSC, signed and ratified in 1996, for the Shah Deniz gas pipeline involving another consortia headed by BP (with 25.5% and also designated operator) and Norway (Statoil with 25.5%) more typically failed to be sanctioned in October 2002 as planned due to problems sorting out finance. Final sanctioning is in 2003. Azerbaijan's economic development will ultimately depend on the diversification of its production for export, but in the near future the prospect is for the increasing dominance of the hydrocarbon sector as a percent of GDP and as a percent of exports.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Azerbaijan's gross domestic product (GDP) was estimated at \$27 billion. The per capita GDP was estimated at \$3,300. The annual growth rate of GDP was estimated at 6.1%. The average inflation rate in 2002 was 2.6%. 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 20% of GDP, industry 33%, and services 47%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$57 million or about \$7 per capita and accounted for approximately 1.1% of GDP. Worker remittances in 2001 totaled \$104.1 million. Foreign aid receipts

amounted to about \$28 per capita and accounted for approximately 4% of the gross national income (GNI).

Approximately 51% of household consumption was spent on food, 16% on fuel, 9% on health care, and 2% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. The richest 10% of the population accounted for approximately 27.8% of household consumption and the poorest 10% approximately 2.8%. It was estimated that in 2002 about 49% of the population had incomes below the poverty line.

## 21 LABOR

In 2001, there were an estimated 3.7 million workers in the labor force. Agriculture and forestry accounted for 40% of employment; industry, 7%; and services 53%. As of 2001, the estimated unemployment rate stood at 16%.

The constitution provides for the right to form labor unions, but in practice this right is limited and unions are generally not effective in wage negotiations. Collective bargaining is at a rudimentary level; wages are still set by government ministries for organizations within the budget. Most major industries are state-owned and the government runs the largest industrial and white-collar unions. Police, military, and customs are prohibited from forming unions, and trade unions may not participate in political activity.

Although the minimum wage alone is far below the level needed to support a worker and family, the reliance on outside income sources and the structure of extended families generally ensure a decent living. In addition, most workers earn in excess of the minimum wage. The legal workweek is 40 hours. There is a minimum working age of 16 with exceptions for children as young as 14 to work during vacations.

## 22 AGRICULTURE

Some 20% of Azerbaijan's area was cultivated or considered arable in 1998. There are currently 59 agricultural regions in 10 geographic zones; the principal crops are grapes, cotton, and tobacco. Agriculture accounted for 20% of GDP in 2001.

Wheat production in Azerbaijan suffers from a number of problems common in the former Soviet Union, including inadequate production credit and lack of inputs. Most wheat is still produced on state farms, as privatization is only beginning. Production in 1999 amounted to 810,000 tons from 515,000 ha (1,273,000 acres). Seed cotton production amounted to 101,000 tons in 1999, from a harvested area of 156,000 ha (386,000 acres). Cotton production has been stagnant due to low producer prices, lack of incentives, and a shortage of both inputs and operating capital. Tobacco was grown on about 8,000 ha (19,800 acres) in 1999; production totaled 9,000 tons.

During the Soviet period, some 1,200 state and cooperative farms existed. Since independence, former state-owned farms have become more productive, and private fruit and vegetable farming is increasing. Of the total crop production of 1999, grapes totaled 140,000 tons; cotton (lint), 39,000 tons; fruits, 390,000 tons; vegetables, 816,000 tons; and grains, 932,000 tons.

Grapes were grown across 50,000 ha (124,000 acres) in 1999; wine production amounted to 65,000 tons that year. Azerbaijan has an expanding wine-producing industry whose wines have frequently won awards at international exhibitions.

## 23 ANIMAL HUSBANDRY

Azerbaijan has some 2.2 million ha (5.4 million acres) of permanent pasture. The livestock population in 1999 included 13,000,000 chickens, 5,132,000 sheep, 1,900,000 cattle, 371,000 goats, 26,000 pigs, and 56,000 horses. Meat production in 1999 amounted to 103,000 tons, almost three-fourths of

which was beef and mutton. In 1999, about 991,000 tons of cow's milk, 29,000 tons of eggs, and 10,000 tons of greasy wool were produced.

## 24 FISHING

The Caspian Sea is Azerbaijan's principal fishing resource. Commercial fishing traditionally centered on caviar and sturgeon. The total catch was 18,797 tons in 2000, primarily Azov sea sprat.

## 25 FORESTRY

About 13% of the land area consisted of forests and woodlands in 2000. Soviet-era policies gave priority to high production and rapid growth at the expense of the environment. The State Committee for Ecology and Use of Natural Resources has recently introduced new regulations to protect forest resources. Roundwood production in 2000 totaled 14,000 cu m (494,000 cu ft).

## 26 MINING

Besides significant reserves of natural gas and petroleum, Azerbaijan has iron ore reserves near the disputed Nagorno-Karabakh region, and lead-zinc and copper-molybdenum deposits in the Nakhichevan area. Production of metallic and industrial minerals in 2000 included alunite (no figure was available for 2000, but 100,000 and 50,000 tons were produced in 1996 and 1997, respectively, and none was produced in 1998 and 1999), alumina (200,000 tons, up from 76,100 in 1999, 6,600 in 1998, and 1,000 in 1996), bromine, clays, gypsum (60,000 tons), iodine (300,000 kg), limestone, marble, sand and gravel, decorative building stone, and precious and semiprecious stones.

## 27 ENERGY AND POWER

At the turn of the 20th century, Azerbaijan accounted for half of the world's oil production. Oil wells have been operating in Baku since the 1840s. As of the early 21st century, almost all production came from offshore in the Caspian Sea. Azerbaijan was one of only four former Soviet republics (along with Russian, Kazakhstan, and Turkmenistan) to be self-sufficient in petroleum. However, production declined following the 1991 breakup of the Soviet Union until foreign investment provided the capital for new development, turning this trend around in 1998. Production rose from 194,000 barrels per day in 1998 to 311,200 in 2001 and remained roughly stable in 2002.

Proven oil reserves at the beginning of 1998 totaled between 3.6 and 12.5 billion barrels. The State Oil Company of Azerbaijan (SOCAR) has planned for joint development of the offshore fields (which are now largely untapped) and has entered into several agreements to build oil pipelines. For instance, a project with the Caspian Pipeline Consortium would carry oil from the Caspian Sea to the Russian Black Sea port of Novorossiysk. Another deal with Turkey involved the construction of a 1,760-km (1,090-mi) pipeline, the symbolic first length of which was installed in September 2002, to carry crude oil from Baku to Ceyhan, Turkey. In 1995 Azerbaijan had 17 offshore oil fields in production. Guneshli, about 60 mi (96 km) off the Azeri coast, currently accounts for more than half the annual production. By the end of 2002, 33 companies in 15 foreign countries had signed agreements to develop 21 major oil fields in Azerbaijan. As of 2003 disputes over offshore oil rights in the Caspian Sea continued to hinder development of those reserves.

Natural gas production has become more important in recent years, especially in Baku, where some of the oil wells have been exhausted. Estimated reserves amount to 440 billion cu m (15.5 trillion cu ft). Production of natural gas in 2000 totaled 5.7 billion cu m (201 billion cu ft). Ukraine and Iran are interested in

running a natural gas pipeline through Azerbaijan en route to Eastern Europe.

In 2000, net electricity generation was 17.7 billion kWh, of which 91.4% came from fossil fuels and 8.6% from hydropower. In the same year, consumption of electricity totaled 16.7 million kWh. Total installed capacity at the beginning of 2001 was 5.1 million kW. Eight thermal plants supply more than 80% of capacity, and the rest comes from hydroelectric plants. The main power plants (both thermal) were near Ali-Bayramy (1,100 MW) and Mingechaur (2,100 MW).

Petroleum and natural gas resources are the basis for an extensive system of refineries which produce gasoline, herbicides, fertilizers, kerosene, synthetic rubber, and plastics.

## 28 INDUSTRY

The oil and gas industry has traditionally been pivotal to the economy; in 1891, Azerbaijan produced more than half of the world's total oil production. In 2001 refinery production accounted for over 14.9% of total industrial production, second only to the 58.6% accounted for by the extraction of crude oil and natural gas, according to the Azeri government statistics. Oil refining is concentrated in the Azerineftiyag (Baku) refinery, with a capacity of 230,000 bpd, and the Azerneftyanajag (New Baku) refinery, with a capacity of 212,000 bpd. The total domestic production of oil in 2001 was 311, 200, of which an estimated 175,200 bpd (56%) was exported, which left the two refineries were operating well below capacity, with overall utilization rates as low as 40%. Both refineries are in need of modernization, which the government estimates, will cost \$600 million to \$700 million. The US Trade and Development Agency financed a \$600,000 feasibility study, awarded to ABB Lumas in January 2002, on up-grading the refineries and the specialized oil port of Dubendi. Failure to replace worn and outdated technology as well as falling demand in the rest of the former USSR resulted in a steady decline in the production of oil products since the early 1980s. Total output averaged 185,000 bpd in 1995, as compared to 285,000 bpd in 1987, and has declined further since. Output of refined products in 2001 included heating oil (approximately 50%), diesel fuel (28%), gasoline (10%), motor oil (7%), kerosene (3%), and other products (3%). Petroleum production is situated in 40 deposits on land and 12 offshore deposits in the Caspian Sea. The offshore Gunashli petroleum mining operation supplies half of the country's petroleum. As of June 2002, Azerbaijan had entered into 23 production-sharing agreements (PSAs) involving about 30 companies from about 15 countries involving 13 offshore fields, and 10 onshore fields. Only six—the off-shore Azeri, Chirag and deepwater Gunashli (ACG) field being developed by the AIOC consortium for connection to the Baku-Tbilisi-Ceyan (BTC) pipeline, and five relatively small onshore fields—were actually producing measurable daily output in 2002.

In line with the historic importance of the oil sector for the Azeri economy, the fabrication of equipment related to petroleum production had been one of the country's major industries. As a source of 70% of the former Soviet Union's oilfield equipment, it also held great importance for other oil-producing post-Soviet republics in the early years of the transition from Communism. Azerbaijan's petroleum equipment manufacturing industry comprised the second-largest concentration of such industries in the world (behind that of the US). Like most other of the country's economic sectors, however, the industry was plagued by plant obsolescence. Industrial production and export statistics for 2001 indicate no manufacturing or export of oilfield equipment. On the contrary, the US Commercial Service has issued bulletins pointing to upwards of \$10 billion in procurement opportunities in Azerbaijan for foreign suppliers of oil field equipment in the period 2002–2005. In August 2002, CCC, a Greece-based

construction and project management firm, won the contract for laying the pipeline for the Azeri portion of the BTC pipeline.

Other important industrial sectors in the Azeri economy include electrical power production (12.1% of total industrial production in 2001), chemicals (3.4%), food processing (3.2%), cars and other transport equipment (2.9%), and tobacco goods (1.6%), as well as various kinds of light manufacturing. As with fuel and oilfield equipment production, however, output in almost all of these sectors declined or stagnated in the 1990s due to the conflict with Armenia.

In aggregate terms, the real value of total industrial production in Azerbaijan dropped 21% in 1995, following already steep declines of 31% in 1992, 8% in 1991, and 17% in 1990. In 1998 total industrial production index registered its first year-on-year increase in the decade, moving from 28% of the 1990 to 29%. By 2001 the index stood at 34% of the 1990 level, and it is estimated that pre-transition levels industrial output will not be achieved until 2007. Manufacturing, the main component in the industrial production index, is lagging the most. In 2001 it stood at only 24% of the 1990 level, whereas other components, namely, the extraction industry and utilities (electric, gas, and water), had reached 83% and 69%, respectively, of 1990 levels of output. A structural change is evidenced in the relative weights of production and refining activities in industrial production between 1997 and 2001. Refining declined from 34% to 14.9% of the total, while extraction increased from 31.2% to 58.6% in 2001. In 2001 total industrial production rose 5.1% over 2000.

## 29 SCIENCE AND TECHNOLOGY

The Azerbaijan Academy of Sciences in Baku has departments of physical engineering and mathematical sciences, chemistry, earth sciences, and biology; as of 1997, 19 science and technology-related research institutes were attached to it. The country has numerous other institutes conducting research in agriculture, medicine, and technology.

The Azerbaijan Technical University in Baku, founded in 1920, has faculties in automation and computing technology, electrical engineering, machine-building, automechanics, metallurgy, radio-engineering, robotics, and transport. Baku State University, founded in 1919, has faculties of mathematics, physics, chemistry, biology, geology, and geography. Azerbaijan also has five higher institutes offering courses in agriculture, medicine, petroleum engineering, engineering, and technology. In 1987–97, science and engineering students accounted for 37% of college and university enrollments. The Azerbaijan Scientific and Technical Library is located in Baku.

## 30 DOMESTIC TRADE

Despite the government's claims that it is moving towards a free market economy, government ownership is still common among large industries. Since independence, there has been an informal privatization of the trading sector as many small shops have sprung up throughout Azerbaijan. Private traders now handle most retail sales. Private business people see trade as relatively low risk in an environment where private ownership rights do not exist. Business and retail hours can vary according to the owner's preference; however, most businesses are open from 9 AM to 6 PM, Monday through Friday. Many businesses and offices also have Saturday hours. Private transactions are primarily in cash. Credit cards are not generally accepted, except in major hotels and restaurants. An 18% value added tax applies to all goods and services.

## 31 FOREIGN TRADE

Like other post-Soviet economies, Azerbaijan is highly trade-dependent; however, it is endowed with a more diversified export structure than many other former USSR countries, especially in neighboring Central Asia. While the centrally planned state



ordering system is steadily losing its place as the basis for trade in the former Soviet Union, the Azeri Ministry of Foreign Economic Relations still controls the export of all products considered to be of strategic importance to the national economy.

Key to Azerbaijan's trade future will be the development and operations of a major oil pipeline out of the Caspian Sea. Currently, the construction of a major export pipeline to the Mediterranean is under way and scheduled for completion in 2005.

Exports include oil and gas (84%), chemicals, oilfield equipment, textiles, and cotton. Imports include machinery and parts (32%), consumer goods, food, and textiles.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Italy	763	28	735
France	205	19	186
Israel	135	6	129
Turkey	105	129	-24
Russia	98	249	-151
Georgia	75	10	65
Switzerland	46	56	-10
Ukraine	24	36	-12
United Kingdom	19	59	-40
Germany	8	68	-60
United States	8	118	-110
Iran	8	57	-49

### 32 BALANCE OF PAYMENTS

The war with Armenia in and around Nagorno-Karabakh had facilitated Azerbaijan's trade deterioration, which was further exacerbated by the collapse of the local currency. Reviving ruble-related trade links with Russia was a key reason for Azerbaijan's entry into the Commonwealth of Independent States in September 1992. In 1995 inflation fell and the currency was stable until it was devalued in 1999, causing inflation of 10% to 15%. The current account deficit was over one-third of GDP in 1998.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Azerbaijan's exports was \$2 billion while imports totaled \$1.8 billion resulting in a trade surplus of \$200 million.

The International Monetary Fund (IMF) reports that in 2001 Azerbaijan had exports of goods totaling \$2.08 billion and imports totaling \$1.47 billion. The services credit totaled \$290 million and debit \$665 million. The following table summarizes Azerbaijan's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-52</b>
Balance on goods	614
Balance on services	-375
Balance on income	-367
Current transfers	77
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>126</b>
Direct investment abroad	...
Direct investment in Azerbaijan	227
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-394
Other investment liabilities	294
<b>Net Errors and Omissions</b>	<b>-1</b>
<b>Reserves and Related Items</b>	<b>-73</b>

### 33 BANKING AND SECURITIES

The National Bank of Azerbaijan is the central bank of Azerbaijan. The central bank is charged with regulating the money supply, circulating currency, and regulating the

commercial banks of the country. However, the banking system in Azerbaijan is minimal and ineffective. An estimated \$1 billion is held in cash or outside the banking sector, a considerable amount in comparison with the scope of the country's entire economy.

There are approximately 70 foreign and local banks in Azerbaijan. Of the four state-owned banks, only the International Bank of Azerbaijan (IBA) was solvent in 1999. The IBA was in the process of being privatized in that year. Major commercial banks include the Promtekhbank, Azakbank, Azerdemiryolbank, Bacobank, Gunay International Bank, Halgbank, ILKBANK, and the Universal Bank. Most businesses use the IBA, or the British Bank of the Middle East, Baku.

The central bank increased the minimum bank capital to \$1.5 million in 1999, and expected to increase the figure to \$3 million in 2001, effectively consolidating the sector. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$363.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$738.5 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

The Baku Stock Exchange, known as the BSE, opened in 2001 trading short-term treasury bonds and the common stock of recently privatized state-owned enterprises. Trading volume in the first six months was just under \$1 million. A regulatory framework for the new exchange is under development and is expected to conform to international transparency standards.

### 34 INSURANCE

As of 1995, at least 14 insurance companies were doing business in Azerbaijan.

### 35 PUBLIC FINANCE

Since 1996, the Azerbaijani government has emphasized privatization as a means towards consolidation of the public debt and revitalization of the economy. Over 70% of all parastatals are set to be privatized; more than 20,600 companies were privatized during 1997 and 1998. Foreign investment was encouraged, especially in the oil sector, however the diversification needed for long-term growth is lacking. The budget deficit in 2001 was a mere 0.5% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 2001 Azerbaijan's central government took in revenues of approximately \$786 million and had expenditures of \$807 million. Overall, the government registered a deficit of approximately \$21 million. External debt totaled \$1.4 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>786</b>
Tax revenue	92.8%	729
Non-tax revenue	5.3%	42
Grants	1.9%	15
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>821</b>
General public services	6.0%	48
Defense	11.1%	89
Public order and safety	11.3%	91
Education	3.2%	26
Health	0.8%	7
Social security	33.1%	267
Recreation, cultural, and religious affairs	1.3%	10
Other expenditures	24.4%	197
Economic affairs and services	8.5%	69
Interest payments	1.9%	15

### 36 TAXATION

On 1 January 2001, a new tax code went into effect. Personal income rates remained the same, at rates ranging from 12–35%, as did the corporate tax rate, at 27%. The revised depreciation schedule for corporate assets favors investments in high-tech equipment and oil and gas exploration. Depreciation rates are 10% a year for buildings, 25% a year for equipment and computers, 25% for geological and exploratory cost and 20% a year for all other assets. The value-added tax (VAT) was reduced from 20% to 18%, while the property tax was raised from .5% to 1% of assessed value. A .05% Road Fund Tax on turnover was abolished, but there is a highway tax imposed on foreign-registered vehicles collected by customs authorities. There are payroll taxes paid by the employer amounting to 32%, 30% going to the Social Protection Fund, and 2% going to the Employment Fund. There are excise taxes, but excise paid for good used of production can be offset against excise charged for the finished product. In 2001, total government revenue came to an estimated 21.4% of GDP, while total expenditures, including net lending, amounted to only 20% of GDP, producing positive fiscal balance equal to 1.4% of GDP.

### 37 CUSTOMS AND DUTIES

Tariffs are set at 15%, 5%, 3%, or 0.5%. Most goods carry the 15% import customs duty. Capital goods and some primary goods are exempt. There is also a 20% value-added tax on certain imports. A dividend withholding tax of 15% is applicable to monies sent abroad.

In 1992, Azerbaijan signed trade agreements with all the republics of the former USSR except Armenia and Russia. Azerbaijan joined the Commonwealth of Independent States (CIS) in September 1993 and acceded to the CIS economic union treaty the same year. Azerbaijan is a member of the Economic Cooperation Organization. In 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union and was seeking membership in the World Trade Organization, but as of 2003 has not yet received it.

### 38 FOREIGN INVESTMENT

Foreign investment plays a major role in financing the development of much of Azerbaijan's industrial sector, especially the oil and gas-related industries. The 1992 Law on Foreign Investment provided many basic guarantees to foreign investors, including nondiscriminatory treatment, the repatriation of profits, guarantees against expropriation, and dispute settlement. The Privatization Law passed in 1995 allowed foreign investors to acquire shares in state companies and purchase real estate jointly. Starting in 1997, foreign tax privileges were revoked. As of 1999, foreign investors were required to obtain a license and pay a fee in order to open business in Azerbaijan.

Only about 100 joint venture projects were registered by mid-1992; these were dominated by Turkish firms and involved primarily trade and textiles. In the oil sector, preliminary agreements were signed with US, Scottish, British, and other foreign companies for the exploration and development of several major oil fields in the Caspian Sea. In 1992, Azerbaijan joined a consortium with Oman, Kazakhstan, and Russia aimed at constructing a pipeline through Armenia, Iran and Turkey, or Georgia. Little action was taken on these agreements, due to heightened political tensions. The Azerbaijan International Operating Company (AIOC), led by BP Amaco, signed an \$8 billion contract in 1994 to exploit oil reserves at Azeri, Chirag, and Guneshli (ACG). Foreign direct investment leapt from only \$30 million in 1994 to over \$1 billion in 2002 (about 17% of GDP), with approximately 90% of FDI concentrated in the hydrocarbons sector. Although the US government had banned public aid to Azerbaijan in 1992, US investors played a large role

in exploiting Azerbaijani oil reserves, increasingly so since January 2002 when the Bush administration waived the ban on public assistance (due to Azerbaijan's trade embargo against Armenia and Nagorno-Karabakh) because of Azerbaijan's support in the War on Terror. In the energy sector, by June 2002, the government had concluded Production Sharing Agreements (PSAs) with over 30 companies representing 15 countries. Over 90 US energy-related companies are currently resident in Baku pursuing investment opportunities. Significant foreign investors in the energy sector included British Petroleum (BP)—the designated operator for both the ACG oil field and the Shah Deniz natural gas field—Unocal, ExxonMobil, Devon Energy (Pennzoil), Chevron, Conoco, Moncrief Oil, TPAO (Turkish Oil Company), Statoil (Norway), Lukoil (Russia), Itochu (Japan), Agip (Italy), and TotalfinaELF (France). The US State Department projects that as work on the BTC pipeline proceeds and development of Azerbaijan's oil and gas resources intensifies, foreign investment should increase from present levels of 15% to 25% of GDP to 50% of GDP in 2004. The US State Department also noted that data from Azerbaijan is not reliable, and only rough estimates can be made. On this basis, it reported that foreign investments in 2000 amounted to about \$927 million, of which \$546.1 million (58.9%) was in the energy sector. For the period 1994–1999, as reported by EC-TACIS, the main sources of FDI have been the United States (28%), the UK (15%), Turkey (15%), Russia (6%), Norway (6%), Japan (3%), Germany (3%), Iran (2%), and France (2%).

### 39 ECONOMIC DEVELOPMENT

Rapid development of the Azeri economy in the former USSR was based on the expansion of both its industrial sector, led by oil-related industries, and its agricultural sector, led by grape, tobacco, and cotton production. With grape and wine production weakened by the effects of Gorbachev's anti-alcoholism campaign in the 1980s, and much of the country's industrial sector afflicted by technological obsolescence, overall economic growth in the republic had already begun to decline by 1989, when NMP dropped 6%. Real gross domestic product (GDP) contracted by almost 60% from 1990 to 1995. However, in late 1990s, foreign investment in the country's oil and natural gas sectors opened a period of steady growth. Key strategies of the Azeri government to bring about economic revitalization have included both an economic restructuring program as well as efforts to expand its economic ties to countries beyond the former Soviet Union. To the latter end, Azerbaijan joined the Economic Cooperation Organization set up by Iran, Pakistan, and Turkey to promote trade among Muslim countries. It was also the first of the former Soviet republics to become a member of the Islamic Development Bank, which provides potential access to financing for programs related to agriculture, construction, training, and food aid. In 2002, economy's prospects brightened considerably with progress made on its two major pipeline projects designed to connect the Caspian Sea to the Turkish Mediterranean to provide oil and gas for the European and North American markets, the Baku-Tbilisi-Ceyhan Export Oil Pipeline (BTC) and the Baku-Tbilisi-Erzrum Gas Pipeline. The BTC particularly received an important impetus when the Azeri government came out as a strong ally of the United States in its War on Terror.

The restructuring program in Azerbaijan has been similar to those of other countries in the former USSR. Its main points include stabilization measures (price liberalization, introduction of national currency, and establishment of an exchange rate stabilization fund); introduction of new legislation regarding privatization, foreign investment, and employment; fiscal and monetary reform (including introduction of a VAT and controls on government expenditures); civil service reform; and development of the banking sector. Four committees on antitrust, support for enterprises, state property, and land reform have been

established to oversee the implementation of reform legislation. Privatization of the state enterprise sector is moving at a slow pace. Particular attention is being directed at modernizing those strategic sectors of the economy with the greatest potential for export growth, particularly the oil industry and, to a lesser extent, textile production; the role of foreign investment is seen as pivotal in these areas.

With construction on the BTC pipeline scheduled to begin in March 2003, and the real prospect of an increase in the country's oil production by a factor of almost 350% by 2005, clear progress can be seen on the strategy to develop into oil and gas resources in partnership with foreign investment.

Since 1994, the Azerbaijan parliament has ratified 22 other PSCs, 19 of which were still operative in 2003. Virtually every major oil company in the world is a player in Azerbaijan, including over 90 American companies resident in Baku in 2002. The US State Department estimates that for the period 2002–2005 opportunities for sales of upwards of \$10 billion will be available in association with the expansion of AIOC's offshore oil and gas production. Macroeconomic stability has also been a clear achievement with the government's tight fiscal and monetary policies producing low consumer price inflation rates in 2000 and 2001 of 1.8% and 1.5%, respectively, according to IMF staff reports, after two years of actual declines in the price level in 1998 and 1999, of -0.8% and -8.5%, respectively.

Economic reforms in Azerbaijan have come increasingly under the supervision of increasingly under the conservative supervision of the IMF and the World Bank, which have also taken aim at the problem of pervasive corruption in the administration of taxes and custom duties. In 2002, Azerbaijan was under a three-year Poverty Reduction and Growth Facility (PRGF) program with the IMF, the objectives of which include establishing financial discipline in the energy sector, and increasing efficiency and transparency in the operations of the Ministry of Taxation and the State Customs Committee, and developing a comprehensive anticorruption program.

In March 2002, Azerbaijan reached agreement with the World Bank for a second Structural Adjustment Credit (SAC-II) program, funded at \$60 million. If implemented, the IMF and World Bank programs would greatly improve the investment climate in Azerbaijan. Azerbaijan's two privatization programs since its transition to a free market economy have faltered on the lack security and market transparency. The first, from 1996 to 1998, focused on small and medium-sized enterprises was hindered by lack of resources to properly prepare assets for privatization and insufficient information about these enterprises. A presidential decree of August 2000 opened up case-by-case sales of some of the country's largest enterprises, and in March 2001 additional decrees were issued identifying about 450 enterprises to be privatized during the second privatization program. Progress continues to be slow, however. Attempts to privatize large state enterprises, such as the Azerboru pipe facility, failed for lack of qualified bidders, although by January 2002 the government had succeeded in placing the Baku electrical distribution network under the long-term private management of a Turkish firm, Barmek Holdings. There has been no substantial progress in privatizing the important telecommunications sector. The private sector's contribution to the economy does continue to grow due to both the first privatization program and to land reform. Official statistics placed the private sector's contribution to GDP at over 70% for 2002, although independent economic observers estimate this share at closer to 50 to 60%, according to the US State Department.

The pursuit of development plans remains hampered by ongoing political conflicts in the country. The border between Azerbaijan and Armenia, still closed in 2003, limits vital trade with Turkey, not to mention the overall economic benefits of a lasting peace between the two countries. Azerbaijan's potential

for economic development based on both its natural and human resources remains high, but the challenges posed by both external and external politics which have eaten at the supporting infrastructure, tangible and intangible, remain quite formidable.

## 40 SOCIAL DEVELOPMENT

The disintegration of the Soviet economy led to economic decline in Azerbaijan, with falling living standards and rising unemployment. The minimum wage was raised several times, but it still does not provide adequately for a worker and family. A decent living can only be assured by the "safety net" of the extended family structure. Health and safety standards are often ignored in the workplace.

Unemployment benefits were introduced in 1991. Contributions in the amount of 2% of payroll are made by employers. Unemployment benefits are paid for 26 weeks, with additional weeks provided for every year worked over 25 years. The maximum allowable time period to receive benefits is 52 weeks. The amount of benefits provided ranges from 55% to 75% of average earnings. Benefits are suspended if the applicant refuses two job offers. Old age and disability pension and survivor benefits are provided. Workers' compensation provides both short-term disability benefits and pensions.

Women nominally enjoy the same legal status as men and are underrepresented in government and higher levels of the work force. Although women receive opportunities for education, work, and political activity, social traditions tend to keep them in subordinate positions. Violence against women is a serious problem especially in rural areas. The government is committed to protecting the rights of children.

Ethnic tensions and anti-Armenian sentiment are still strong. Many Armenians have either been expelled or emigrated. It is estimated that only 10,000–20,000 Armenians continue to reside in Azerbaijan. Other minorities, such as the Kurds and the Turks, also report problems of discrimination. The constitution provides for freedom of assembly, religion, and speech, but these rights are often restricted by the government. Azerbaijan's human rights record remains poor. Excessive force was used by police, and the judicial system was inefficient and corrupt. Prison conditions remain harsh.

## 41 HEALTH

As part of the former Soviet Union, Azerbaijan has had to develop and maintain its own health care system and standards. As of 1999, there were an estimated 3.6 doctors and 9.7 hospital beds per 1,000 people. In 1999, the total expenditure on health was estimated at 1.8% of GDP.

Azerbaijan's infant mortality rate for 2000 was 13 per 1,000 live births and the total fertility rate was 2.0 per woman. In 1998 the maternal mortality rate was 43 per 100,000 live births. As of 1999, the country immunized an estimated 99% of one-year-old children against diphtheria, pertussis, and tetanus and 99% against polio.

The overall death rate in 2002 was estimated at 10 per 1,000 inhabitants. Thousands of lives were lost between 1989 and 1992 when the country was at war with Armenia. Few cases of AIDS have been reported in the last few years. In 1996, two cases were reported; the total number of people living with AIDS/HIV was under 500 in 1999. Diphtheria, tuberculosis, hepatitis A, and diarrheal and acute respiratory infections have been serious public health problems. There have also been outbreaks of anthrax, botulism, cholera, tetanus, and malaria. Measles and tuberculosis still remain in this country despite a high incidence of vaccination for one-year-old children. In 1999, the incidence of tuberculosis was 62 per 100,000 people.

## 42 HOUSING

As of 1996, over 1.3 million people were living in houses that were considered to be structurally dilapidated and dangerous. About 66.5% of all housing is privately owned, with 96.5% of rural dwellings and 45.7% of urban dwellings under private ownership. About 67% of current dwellings were built within the period from 1981–1996. In 1996, there were about 60,000 refugees or other displaced persons living in tent communities. Another 300,000 were residing in public, non-residential buildings. At least 5% of homeless families had been waiting for housing for 10 years or more. From 1991–1995, construction of new housing fell by nearly 50% due to poor economic conditions and the government estimated that a total of about 107,000 homes had been lost due to the conflict over Nagorno-Karabakh.

## 43 EDUCATION

The educational system is extensive and illiteracy is practically unknown. In 1995, the adult illiteracy rate was estimated at 0.4% (males, 0.3%; females, 0.5%). The usual language of instruction is Azerbaijani, although Russian, Armenian, and Georgian are also offered by some schools. In 1997 primary schools enrolled 719,013 students in 4,454 schools, with 35,514 teachers. In the same year, secondary schools enrolled 819,625 students taught by approximately 85,000 teachers. In 1998, the pupil-teacher ratio at the primary level was reported as 19 to 1.

Russian is more commonly used at higher-level institutions, but this is slowly changing with a growing demand for the use of Azerbaijani. Education is free. As of 1999, public expenditure on education was estimated at 3.4% of GDP.

Azerbaijan's most important institutes of higher learning are the Azerbaijan Polytechnic Institute, located in Baku, with seven departments and an enrollment of 12,000 students; and the State University, also located at Baku and founded in 1919. It has an enrollment of over 15,000 students in 11 departments. Other institutions include the Medical University, Technological University, the Economic Institute, and the Oil and Chemistry Academy. In total, 15,929 teachers were employed and 115,116 students were enrolled in institutions of higher learning in 1997.

Baku is sometimes referred to as an "oil academy" because of its ongoing research in the areas of turbine drilling, cementation of oil wells, and the development of synthetic rubber from natural gas.

## 44 LIBRARIES AND MUSEUMS

Azerbaijan has a National Library in Baku with 4.4 million volumes. There are 115 recognized museums in the country, 27 of which are art museums, and there are 20 theaters. The country also has 6,571 monuments and historic sights. The Ichari Shahar, or Old Town, in Baku has the Shirvanshah Palace, an architectural monument from the 15th and 16th centuries which has been restored and is now a museum. Other museums are the Museum of History of Azerbaijan (1920), which exhibits archeological, ethnographic, and other relics; the Rustam Mustfayev Azerbaijan State Arts Museum, displaying works of Azerbaijani, Russian and West European artists from the 15th–19th centuries along with the works of modern Azerbaijani artists; the State Museum of Azerbaijani Carpets and Folk and Applied Art; and the Nizami State Museum of Azerbaijani Literature, depicting the stages of literary development. The Gobustan Museum features prehistoric dwellings and cave paintings over 10,000 years old. Baku, the capital, remains an important cultural and intellectual center in Transcaucasia.

## 45 MEDIA

Azerbaijan is connected to other former Soviet republics by land-line or microwave, and to other countries through Moscow. In 1998, there were 1.4 million telephones in use. Service is said to

be of poor quality and inadequate. In 1997, there were about 40,000 cellular phones in use nationwide.

In 2002 there were several newspapers, most of them published in Azerbaijani. *Azerbaijan Ganjlari (Youth of Azerbaijan)* had a circulation of 161,000 in 2002. Over 100 periodicals are published, more than half in Azerbaijani. As of 1999, there were 10 AM and 17 FM stations and two television stations. Domestic and Russian television programs are received locally, while Iranian television is received from an Intelsat satellite through a receive-only earth station. In 2000, there were 22 radios and 259 television sets for every 1,000 people. In 2001, 12,000 Internet subscribers were served by about two service providers.

The Constitution of Azerbaijan specifically outlaws press censorship; however, it is said that the government does not always respect freedom of the press in practice.

## 46 ORGANIZATIONS

Important political associations in the Republic of Azerbaijan include the Helsinki Group, a human rights group, the National Democratic Movement, and Musavat (Equality). The Committee of Democracy and Human Rights in Azerbaijan, founded in 1993, is made up of both individuals and organizations focusing on promoting respect for human rights. The group publicizes human rights abuses and offers legal assistance to victims. The Red Crescent Society is also present.

A number of groups promote and protect civil rights and humanitarian needs for women and children. These include: the Association for the Defense of Rights of Azerbaijan Women, the Azerbaijan Women's Association, Azerbaijan Women's Intelligence Organization, Azerbaijani League for the Defense of the Rights of Children, and the Shout of Mothers Society.

There are over 20 youth organizations united and coordinated in part by the National Assembly of Youth Organizations of Azerbaijan (NAYORA), which was established in 1995. The Azerbaijan Union of the Democratic Youth (AUDY), established in 1994, is an independent group seeking to unite youth of all languages, religions, and nationalities into a single cause of patriotism for an independent and democratic Azerbaijan society. A scouting organization is also present as is an organization of the Special Olympics.

## 47 TOURISM, TRAVEL, AND RECREATION

The capital city of Baku is one of the prime tourist destinations of the Caucasus region. Its Old Town, with the Shirvanshah palace dating back to the 15–16th centuries, is especially popular with sightseers. Other attractions include the Museum of History and the State Arts Museum, as well as museums of folk art and literature. Elsewhere in Azerbaijan, the Gobustan Museum displays prehistoric dwellings and cave paintings, and the village of Surakhani attracts visitors to the Atashgah Fire-Worshipper's Temple. Visitors are also welcome at the carpet-weaving factory in the village of Nardaran, the Wine-making State Farm in the Shamakhi area, the Fruit and Vegetable State Farm around the town of Guba, and the Mashtagha Subtropical Fruit State Farm.

There were approximately 681,000 tourist arrivals in Azerbaijan in 2000, with about 50% of visitors coming from Europe. Tourism receipts that year reached about \$63 million.

In 2002, the US Department of State estimated the cost of staying in Baku at \$282 per day. The cost of staying outside of Baku can be much lower, even around \$64 per day.

## 48 FAMOUS AZERBAIJANIS

Heydar Aliyev has been acting president since June 1993. The poet Nizami Ganjavi (1141–1204) is celebrated for his *Khamisa*, a collection of five epic poems. Muhammed Fizuli (1438–1556) based his poems on traditional folktales, and his poetic versions provide the bases for many 20th century plays and operas.

Satirical poet Sabir (1862–1911) was openly critical of the clergy at a time when their influence controlled much of society. Abul Hasan Bakhmanyar, an 11th century scientist, wrote respected books on mathematics and philosophy. Hasan Shirvani wrote a book on astronomy.

The composer Uzeyir Hajibeyov (1885–1948) wrote the first Azerbaijani opera, and also founded the Azerbaijani Symphonic Orchestra and composed Azerbaijan's National Anthem. Other famous composers from Azerbaijan include Gara Garayev (1918–82), Haji Khanmammadov (b.1918), Fikrat Amirov (1922–84), and Vasif Adigozal (b.1936). Vagif Mustafa Zadeh (1940–79) is considered the founder of the Azerbaijani music movement of the 1960s that mixed jazz with the traditional style known as *mugam*. His daughter, Aziza Mustafa Zadeh (b.1969), is a noted jazz pianist.

Prominent modern Azerbaijani scientists include Lofti Zadeh (b.1921), pioneer of the “fuzzy logic” concept, and Ali Javan (b. Iran, 1928), inventor of the gas laser.

#### 49 DEPENDENCIES

Azerbaijan has no territories or colonies.

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# BAHRAIN

State of Bahrain  
*Dawlat al-Bahrayn*

**CAPITAL:** Manama (Al-Manamah)

**FLAG:** Red with a white serrated band (five white points) on the hoist side.

**ANTHEM:** Music without words.

**MONETARY UNIT:** The Bahrain dinar (BD) is divided into 1,000 fils. There are coins of 5, 10, 25, 50, and 100 fils and notes of 500 fils and 1, 5, 10, and 20 dinars. BD1 = \$2.6596 (or \$1 = BD0.376) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is used; local measures also are used.

**HOLIDAYS:** New Year's Day, 1 January; National Day, 16 December. Movable Muslim religious holidays include Hijra (Muslim New Year), 'Ashura, Prophet's Birthday, 'Id al-Fitr, and 'Id al-'Adha'.

**TIME:** 3 PM = noon GMT.

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

Situated in the western Persian Gulf, 29 km (18 mi) NW of Qatar, the State of Bahrain consists of a group of 33 islands (6 inhabited) with a total area of 620 sq km (239 sq mi), extending 48 km (30 mi) N-S and 19 km (12 mi) E-W. Comparatively, Bahrain occupies slightly less than 3.5 times the area of Washington, D.C. Bahrain, the main island, is linked by causeways and bridges to Muharraq and Sitra islands and to Sa'udi Arabia; other islands include the Hawar group, Nabih Salih, Umm an-Nasan, and Jidda. The total coastline is 161 km (100 mi). Bahrain's capital city, Manama, is located on the northeastern coast.

## <sup>2</sup>TOPOGRAPHY

A narrow strip of land along the north coast of Bahrain is irrigated by natural springs and artesian wells. South of the cultivable area, the land is barren. The landscape consists of low rolling hills with numerous rocky cliffs and wadis. From the shoreline the surface rises gradually toward the center, where it drops into a basin surrounded by steep cliffs. Toward the center of the basin is Jabal ad-Dukhan, a rocky, steep-sided hill that rises to 122 m (400 ft). Most of the lesser islands are flat and sandy, while Nabih Salih is covered with date groves.

## <sup>3</sup>CLIMATE

Summers in Bahrain are hot and humid, and winters are relatively cool. Daily average temperatures in July range from a minimum of 29°C (84°F) to a maximum of 37°C (99°F); the January minimum is 14°C (57°F), the maximum 20°C (68°F). Rainfall averages less than 10 cm (4 in) annually and occurs mostly from December to March. Prevailing southeast winds occasionally raise dust storms.

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

Outside the cultivated areas, numerous wild desert flowers appear, most noticeably after rain. Desert shrubs, grasses, and wild date palms are also found. Mammalian life is limited to the jerboa (desert rat), gazelle, mongoose, and hare; some 14 species of lizard and 4 types of land snake are also found. Bird life is

especially varied. Larks, song thrushes, swallows, and terns are frequent visitors, and residents include the bulbul, hoopoe, parakeet, and warbler.

## <sup>5</sup>ENVIRONMENT

Bahrain's principal environmental problems are scarcity of fresh water, desertification, and pollution from oil production. Population growth and industrial development have reduced the amount of agricultural land and lowered the water table, leaving aquifers vulnerable to saline contamination. In recent years, the government has attempted to limit extraction of groundwater (in part by expansion of seawater desalination facilities) and to protect vegetation from further erosion. In 1994, 100% of Bahrain's urban dwellers and 57% of the rural population had pure water. Bahrain has developed its oil resources at the expense of its agricultural lands. As a result, lands that might otherwise be productive are gradually claimed by the expansion of the desert. Pollution from oil production was accelerated by the Persian Gulf War and the resulting damage to oil-producing facilities in the Gulf area, which threatened the purity of both coastal and ground water, damaging coastlines, coral reefs, and marine vegetation through oil spills and other discharges.

A wildlife sanctuary established in 1980 home to threatened Gulf species, including the Arabian oryx, gazelle, zebra, giraffe, Defassa waterbuck, addax, and lesser kudu. Bahrain has also established captive breeding centers for falcons and for the rare Houbara bustard. The goitered gazelle, the greater spotted eagle, and the green sea turtle are considered endangered species.

## <sup>6</sup>POPULATION

The population of Bahrain in 2003 was estimated by the United Nations at 724,000, which placed it as number 156 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 28% of the population under 15 years of age. There were 135 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.17%, with the projected population for the year 2015 at

900,000. The population density in 2002 was 971 per sq km (2,515 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, Manama, had a population of 162,000 in that year. Manama is connected by causeway with the other major city, Al-Muharraq, population 75,906. According to the United Nations, the urban population growth rate for 2000–2005 was 1.6%.

The vast majority of the population lives on the main island of Bahrain. There are approximately 230,000 foreign workers living in the country.

## 7 MIGRATION

The proportion of aliens increased from 20% of the total population in 1975 to an estimated 40% in 2000. Most of them are temporary workers from other Arab countries, Iran, Pakistan, India, and the Republic of Korea. Many skilled workers are Europeans. In 2000, the net migration rate was 6.6 migrants per 1,000 population. The government views these migration levels as satisfactory requiring no intervention.

## 8 ETHNIC GROUPS

In 2002, 63% of the population consisted of indigenous Bahrainis, the vast majority of whom were of northern Arab (Adnani) stock, infused with black racial traits. Asians accounted for 19% of the population; other Arab groups (principally Omanis) 10%; Iranians 8%; and other ethnic groups 6%.

## 9 LANGUAGES

Arabic is the universal language; the Gulf dialect is spoken. English is widely understood, Farsi and Urdu less so.

## 10 RELIGIONS

In 2002, an estimated 98% of the population was Muslim, with about two-thirds practicing the Shi'a branch and the others Sunni. Foreigners make up 38% of the total population; roughly half are non-Muslim, including Christians, Jews, Hindus, Buddhists, Sikhs, and Baha'is. All are free to practice their own religions, keep their own places of worship, and display the symbols for their religions. Islam, however, is the official religion.

## 11 TRANSPORTATION

The outline of the present road network was traced in the early 1930s, soon after the discovery of oil. The four main islands and all the towns and villages are linked by excellent roads. There were 3,164 km (1,996 mi) of roadways in 2002, of which 2,433 km (1,512 mi) were paved. A four-lane, 2.8-km (1.7-mi) causeway and bridge connect Manama with Al-Muharraq, and another bridge joins Sitra to the main island. A four-lane highway atop a 24-km (15-mi) causeway, linking Bahrain with the Sa'udi Arabian mainland via Umm an-Nasan, was completed in December 1986 and financed by Sa'udi Arabia. In 2000, there were 172,684 passenger vehicles and 41,820 commercial vehicles.

Bahrain's port of Mina Sulman can accommodate 16 oceangoing vessels drawing up to 11 m (36 ft). In 2001, Bahrain had a merchant fleet of eight ships of 1,000 GRT or over, totaling 270,784 GRT. Also in 2001, there were four airports, three of which had paved runways. The international airport near Al-Muharraq can handle large jet aircraft and serves more than two dozen international airlines. In 1997, the airport was in the midst of a major expansion. Gulf Air, headquartered in Bahrain and owned equally by the governments of Bahrain, Oman, Qatar, and the United Arab Emirates (UAE), flies to other Gulf countries, India, and Europe. In 2001, 1,250,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The history of Bahrain has been traced back 5,000 years to Sumerian times. Known as Dilmun, Bahrain was a thriving trade center around 2000 BC; the islands were visited by the ships of Alexander the Great in the third century BC. Bahrain accepted Islam in the 7th century AD, after which it was ruled alternately by its own princes and by the caliphs' governors. The Portuguese occupied Bahrain from 1522 to 1602. The present ruling family, the Khalifa, who are related to the Sabah family of Kuwait and the Sa'udi royal family, captured Bahrain in 1782. Following an initial contact in 1805, the ruler of Bahrain signed the first treaty with Britain in 1820. A binding treaty of protection, similar to those with other Persian Gulf principalities, was concluded in 1861 and revised in 1892 and 1951. After World War II, Britain maintained at Bahrain its headquarters for treaty affairs in the lower Gulf. Claims to Bahrain pressed by Iran were abandoned in 1971 after a UN mission ascertained that the Bahrainis wished to remain independent of that nation.

Between 1968 and 1971, Bahrain participated in discussions aimed at forming a federation of the nine sheikhdoms of the southern Gulf. On 14 August 1971, Sheikh 'Isa bin Salman al-Khalifa declared that, in view of the failure of the larger federation to materialize, Bahrain would declare its independence. Its treaties with the United Kingdom were replaced by a treaty of friendship and cooperation, and on 15 August, the country became the sovereign State of Bahrain. Bahrain promulgated its first constitution in 1973, which occasioned the convening of an elective National Assembly; the legislature was dissolved in August 1975 amid charges of communist influence. The emir continued to set state policy, and his brother, Crown Prince Hamad bin 'Isa al-Khalifa, directed government administration. In 1993, Bahrain established an appointive Consultative Assembly (Majlis al-Shura). On 14 February 2001, a referendum was held that endorsed a return to constitutional rule. Under the constitution amended 14 February 2002, the country is no longer an emirate, but a constitutional monarchy. The emir was replaced by a king. A two-house National Assembly was established, along with an independent judiciary.

Owing to its small size, Bahrain generally takes its lead in foreign affairs from its Arab neighbors on the Gulf. A founding member of the Gulf Cooperation Council, it shares with the other five members a long-standing concern with pressures from Iran and Iraq. During the Iran-Iraq War, Bahrain joined most other Arab states in supporting Iraq. Subsequently, it has carefully tried to foster better relations with Iran through trade. When Iraq invaded Kuwait, Bahrain stood with the allies, contributing military support and facilities to the defeat of Iraq.

Bahrain has long assisted the American naval presence in the Persian Gulf. In 1977, a formal agreement for home-porting US naval ships was replaced by arrangements to continue ship visits and other security cooperation. Since the Gulf War, this cooperation has expanded with arms sales, plans for joint exercises and US pre-positioning of military material for future contingencies. In 1991, the United States signed an agreement giving the Department of Defense access to facilities on the island. The country is home to the US Navy's Fifth Fleet.

Since 1994, Bahrain, like several traditional emirates of the Gulf, experienced sometimes severe civil disturbances from a Shi'ite-led resistance opposed to the ruling family and supportive of establishing an Islamic democracy. In 1996, a band of 44 Bahraini Islamists were arrested for allegedly planning a coup to overthrow the ruling family. The emirate broke relations with Iran, which the former accused of fomenting its civil disturbances which between 1994 and 1996 had resulted in 25 deaths. In 1997, the United States disclosed that it had uncovered a plot to attack its military forces stationed in the country.

On 6 March 1999, Sheikh 'Isa bin Salman al-Khalifa, who had ruled his country since its independence in 1971, died of a heart attack. He was succeeded on the throne by his son, Sheikh Hamad bin 'Isa al-Khalifa. Over the following year, there were signs that while the new ruler would continue his father's pro-Western foreign-policy orientation, domestically he would take a more liberal approach to government. In April, Sheikh Hamad released high-profile Shi'ite dissident, Sheik Abdul Amir al-Jamri, from jail together with hundreds of other political prisoners. Another broad pardon of dissidents took place in November. By February 2001, the emir had pardoned and released all political prisoners, detainees, and exiles.

On 16 March 2001, the International Court of Justice (ICJ) resolved a territorial dispute between Bahrain and Qatar over the potential oil- and gas-rich Hawar Islands. The islands were controlled by Bahrain since the 1930s but were claimed by Qatar. Bahrain also claimed the town of Zubarah, which is on the mainland of Qatar. The dispute has lasted for decades and almost brought the two nations to the brink of war in 1986. In its judgment, the ICJ drew a single maritime boundary in the Gulf of Bahrain, delineating Bahrain and Qatar's territorial waters and sovereignty over the disputed islands within. The ICJ awarded Bahrain the largest disputed islands, the Hawar Islands, and Qit'at Jaradah Island. Qatar was given sovereignty over Janan Island and the low-tide elevation of Fasht ad Dibal. The Court reaffirmed Qatari sovereignty over the Zubarah Strip.

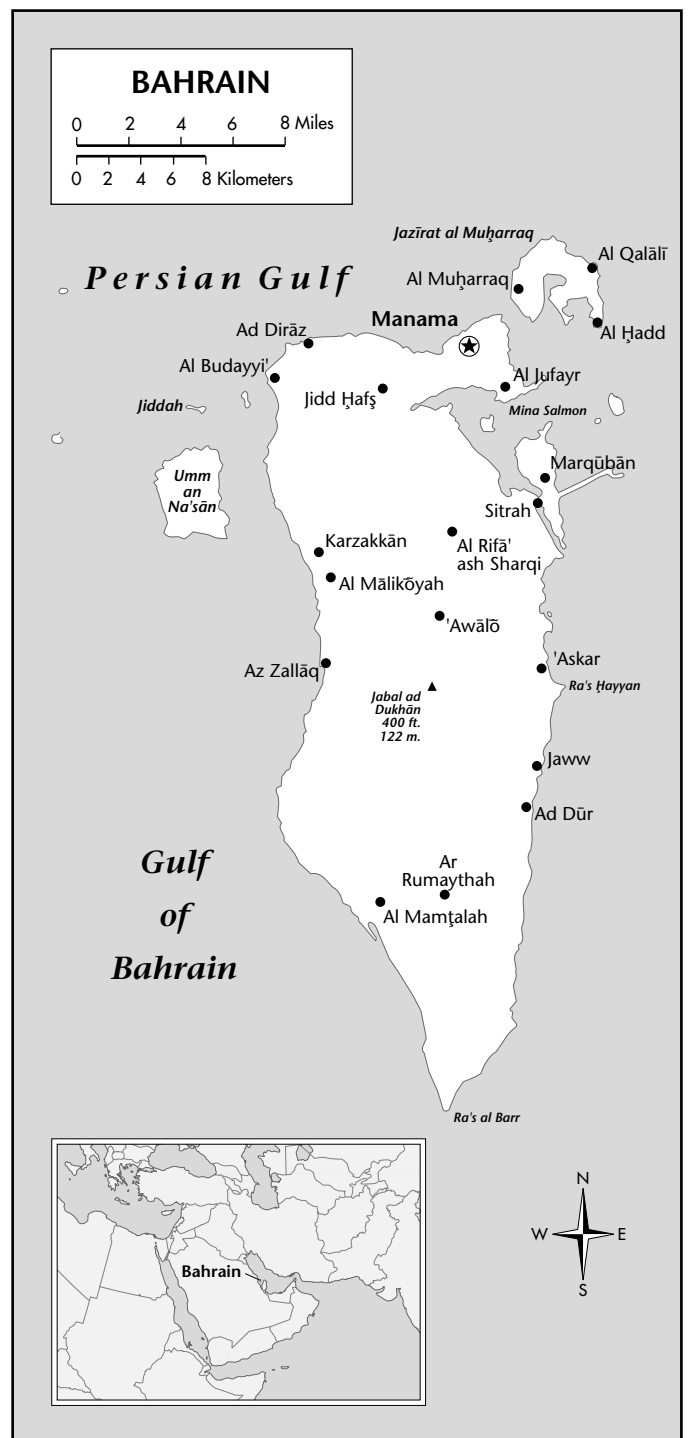
In August 2002, Hamad (now king) made the first state visit to Iran since the Islamic revolution in 1979. The two countries voiced their support for solidarity with the Iraqi people. Iraq was at that time under the threat of a military attack led by the United States for its possession of weapons of mass destruction. Bahrain and Iran urged Iraq to implement all UN resolutions then pending, so that Iraq's territorial integrity and sovereignty could be honored. President Mohammed Khatami of Iran and King Hamad also noted the importance of preserving security and stability in the region, and thus pledged to strengthen ties with one another. Several trade, taxation, and naval agreements were signed at the conclusion of the state visit. As well, both countries agreed to "open a new page" in their bilateral relations, previously strained due to Iran's support for Bahraini opposition movements, and Iran's criticism of the American military presence in Bahrain.

In January 2003, demonstrations took place in Bahrain in opposition to a potential US-led war with Iraq. By 13 January, there were approximately 150,000 US troops in the Gulf region, many of which were stationed in Bahrain, in addition to Kuwait, Qatar, Sa'udi Arabia, and Oman.

### 13 GOVERNMENT

Under its constitution, amended 14 February 2002, Bahrain is no longer an emirate but a constitutional monarchy. As a result of the change, the State of Bahrain became the Kingdom of Bahrain, and Sheikh Hamad bin 'Isa al-Khalifa became King Hamad, by his own decree. A referendum held on 14 February 2001 endorsed a return to constitutional rule by 98.4%.

The new legislature is called the National Assembly (Al-Majlis al-Watani). It consists of two houses, an appointed Consultative Council (Majlis al-Shura) and an elected Chamber of Deputies (Majlis al-Nawab). The Chamber of Deputies consists of 40 members, elected for a 4-year term. The Chamber of Deputies elects a president and two vice presidents. The Consultative Council consists of 40 members appointed by the king for a 4-year period. The king also appoints the Council speaker and the Shura Council elects two vice presidents. Both chambers must concur to pass legislation, which is then sent to the king for ratification. The king has the power to dissolve the Chamber of Deputies, but new elections are to be held within four months



LOCATION: 25°47' 10" to 26°17' 3"N; 50°22' 45" to 50°40' 20' E. TOTAL COASTLINE: 161 kilometers (100 miles). TERRITORIAL SEA LIMIT: 3 miles.

from the date of the dissolution; if they are not, the dissolved Chamber reassumes its constitutional powers and is reconvened.

The constitution specifies that *Shari'ah* is a principal source of legislation but also pledges freedom of conscience. It guarantees equality of women with men "in political, social, cultural and economic spheres, without breaching the provisions of *Shari'ah*." The constitution states that every citizen is entitled to health care. It protects private property, but states that "all natural wealth



and resources are state property.” Discrimination is banned on the basis of sex, national origin, language, religion or creed.

In the first parliamentary elections since 1973, 190 candidates ran for 40 seats in the Chamber of Deputies on 24 October 2002. In nearly half the races, runoff elections were held between the top two vote getters due to close election results. Under the new constitution, women have the right to vote and run for public office. Of the 8 women seeking election in the October parliamentary elections, two forced runoff elections by being among the top two vote getters. As in municipal elections held in May 2002, women constituted over half of those voting. Leaders of Bahrain’s Shi’a population and labor-oriented groups called for a boycott of the elections, claiming dissatisfaction with the structure of parliament. Voter turnout was 53.2%. Moderate Sunni Islamists and independents won 16 of 40 seats on 24 October. In a second round held on 31 October, the independents won 12 seats and the Islamists 9. In total, secular representatives or independents secured a total of 21 of the 40 seats, and Islamists 19.

#### 14 POLITICAL PARTIES

Political parties are illegal in Bahrain. Several underground groups, including branches of Hizbollah and other pro-Iranian militant Islamic groups, have been active. Anti-regime dissidents have frequently been jailed or exiled. However, Sheikh Hamad bin ‘Isa al-Khalifa in 1999 issued an amnesty for most political prisoners, ended the house arrest of Shi’ite opposition leader Sheikh Abdul Amir al-Jamri, and granted permission for the return of 108 people in exile. By February 2001, the emir had pardoned and released all political prisoners, detainees, and exiles. In addition, the reinstatement of dissidents fired from public sector jobs, the lifting of travel bans on political activists, and the abrogation of state security laws have all created a more open atmosphere for political expression.

Beginning with municipal elections in May 2002, candidates from a wide variety of political groups have formed a more pluralistic political culture in Bahrain. As of December 2002, these groups were not officially designated as political parties, but they had the attributes of democratic parties in the West: they can field candidates in elections, organize their activities, and campaign freely. There are seven main political groups: the Arab-Islamic Wasat (Center) Society (AIWS); the Democratic Progressive Forum (DPF); the Islamic National Accord (INA); the National Action Charter Society (NACS); the National Democratic Action Society (NDAS); the National Democratic Gathering Society (NDGS); and the National Islamic Forum (NIF).

In addition, numerous other non-governmental organizations were set up after the constitution was endorsed in February 2001, among them the Bahrain Human Rights Society, the Supreme Council for Bahraini Women, and the Organization Against Normalization with Israel. These organizations campaign on single-issue platforms, hold public discussions and meetings, consult with the government, and are members of Bahraini delegations to international forums.

#### 15 LOCAL GOVERNMENT

Under the new constitution, there are five municipal councils in Bahrain, each with 10 elected members and an appointed chairman. The first local elections since 1957 were held on 9 May 2002. Thirty of the fifty seats contested in the five new municipal councils were decided in the first round of voting, with the remaining twenty seats—where no candidate received an absolute majority—being decided in a second round of voting on 16 May. Candidates with links to Islamist groups won the majority of seats. There were 31 women among 306 candidates in the first round of voting, but none won. After the elections, some political figures suggested that a quota system should be set up to assure

that some women would obtain seats in the municipal councils. Out of the 50 municipal seats, 38 were won by candidates affiliated with Islamist parties. Voter turnout in the first round of voting was 51.3%.

The democratic municipalities are responsible for the provision of local goods and services, including transportation, waste disposal, street cleaning and beautification, and enforcing health and safety standards.

#### 16 JUDICIAL SYSTEM

The law of Bahrain represents a mixture of Islamic religious law (*Shari’ah*), tribal law, and other civil codes and regulations. The new constitution promises an independent judiciary. A Higher Judicial Council supervises the courts. Courts have been granted the power of judicial review.

The new reforms establish a constitutional court, consisting of a president and six members, appointed by the king for a specified period. Members are not liable to dismissal. The government, or either house of the National Assembly, may challenge the constitutionality of any measure before the court. The king may refer to the court draft laws prior to their adoption, to determine their constitutionality.

Military courts are confined to military offenses only, and cannot be extended to others without the declaration of martial laws.

*Shari’ah* governs the personal legal rights of women, although the new constitution provides for women’s political rights. Specific rights vary according to Shi’a or Sunni interpretations of Islamic law, as determined by the individual’s faith, or by the courts in which various contracts, including marriage, have been made. While both Shi’a and Sunni women have the right to initiate a divorce, religious courts may refuse the request. Women of either branch of Islam may own and inherit property and may represent themselves in all public and legal matters. A Muslim woman legally may marry a non-Muslim man if the man converts to Islam. In such marriages, the children automatically are considered to be Muslim.

#### 17 ARMED FORCES

In 2002 the Bahrain armed forces had 10,700 active members. The army consisted of 8,500; the naval force had 1,000; and the air force had 1,300. Paramilitary troops consisted of 10,160 personnel, including the police, national guard, and coast guard. Defense expenditures in 2001 were \$526.2 million, or 6.7% of GDP.

#### 18 INTERNATIONAL COOPERATION

Bahrain joined the UN on 21 September 1971 and is a member of ESCWA, all major regional organizations, and all the nonregional specialized agencies except IAEA, IDA, and IFAD. It also belongs to the Arab League and G-77, and is a signatory of the Law of the Sea and a member of the WTO. Bahrain was a founding member of the Gulf Cooperation Council, inaugurated in 1981.

#### 19 ECONOMY

For centuries, Bahrain depended almost exclusively on trade (or piracy), pearl diving, and agriculture. The discovery of oil on 1 June 1932 came at a time when the pearl trade was being drastically undercut by the development of cultured pearls. Although its economy has been based on oil for the last six decades, Bahrain’s development has been tempered by relatively limited reserves. Proven reserves are 125 million barrels, all from one diminishing oil field, the Awali field. At current production levels, the field has a life of less than 10 years. The oil industry accounted for 60% of export earnings, 60% of government revenues, and approximately 30% of GDP in 2001.

Significant progress has been made in enhancing Bahrain as an *entrepôt* (trade center) and as a service and commercial center for

the Gulf region. Bahrain provides ample warehousing for goods in transit and drydock facilities for marine engine and ship repairs. Bahrain also acts as a major banking, telecommunications, and air transportation center. Bahrain made the move to diversify its economy—moving to rely on services to a higher degree—after the Lebanese civil war in the late 1970s and early 1980s essentially ended that country's status as a safe, regulation-free banking environment. The strategy has worked to a large extent. Since establishing itself as an offshore banking center in 1975, the banking sector of the economy now has assets of \$99.5 billion, with \$85.7 billion (86%) in offshore banks. Services accounted for 64% of all economic activity in the country.

The Bahrain economy slowed down considerably after 1993, grinding to a halt in 1994. Average annual growth averaged 4% between 1988 and 1998, buoyed by investment during the early 1990s. In 1998, it experienced a contraction of 2% due to low world oil prices. Positive real growth returned in 1999, of 2.6%, and has improved to 3% in 2000 and 4% in 2001.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Bahrain's gross domestic product (GDP) was estimated at \$8.4 billion. The per capita GDP was estimated at \$13,000. The average inflation rate in 2001 was 1.5%. 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 1% of GDP, industry 35%, and services 64%.

Foreign aid receipts amounted to about \$27 per capita. Approximately 32% of household consumption was spent on food, 8% on fuel, 1% on health care, and 6% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

The Bahraini labor force in 1998 was estimated at 295,000, of whom some 44% were non-nationals. Employment by sector was as follows: industry, commerce, and services, 79%, government, 20%, and agriculture, 1%. Unemployment stood at 15%.

Although the constitution permits workers to organize, the government bans trade unions. With this absence of legitimate trade unions, no collective bargaining entities or collective agreements exist. Workers may express grievances through joint labor-management committees (JLCs). JLCs are generally created at each major company and have an equal number of labor and management representation. As of 2000, there were a total of 20 JLCs. There are no internationally affiliated trade unions, and foreign workers are underrepresented in the General Committee of Bahrain workers which coordinates the JLCs.

The government set minimum wage scales for public sector employees and this generally provides a decent standard of living for workers and their families. The minimum wage for public-sector wages were specified on a contract basis. All foreign workers must be sponsored by Bahrainis or Bahrain-based companies, which can revoke the residence permit of anyone under their sponsorship. Migrant workers from developing countries are often unwilling to report health and safety abuses for fear of forced repatriation. Nor do labor laws apply to foreign workers, who often work far in excess of official maximum hour laws. The minimum age for working is 14 years and until age 16, special work conditions and hour limits apply to workers. There is general compliance with this in the industrial sector, but there is rampant abuse outside it, especially in family-owned businesses.

## 22 AGRICULTURE

Only 2.9% of the land is arable. Agriculture accounts for only about 1% of the GDP. Ninety farms and small holdings produce fruit and vegetables, as well as alfalfa for fodder. The date palm industry has declined sharply in recent years due to heavy demands on the limited water supply, and dates have become a luxury item. In 1999, 12,000 tons of vegetables and 22,000 tons of fruit crops were produced. The government's goal is for output to meet 16% of demand, compared with the current 6%.

## 23 ANIMAL HUSBANDRY

Most domestic meat consumption is supplied through imports of live cattle, goats, and sheep. About 13,000 head of cattle, 17,000 sheep, and 16,000 goats were kept for milk and meat production in 1999. A thriving poultry industry provided 5,000 tons of meat and 3,000 tons of eggs in 1999. Dairy farming has recently been expanded, and a national dairy pasteurization plant has been established in order to centralize all milk processing and distribution. In 1999, milk production from 7,000 cows totaled 14,000 tons. An abattoir that opened in 1984 slaughters imported sheep and cattle.

## 24 FISHING

Although the more than 300 species of fish found in Bahraini waters constitute an important food source for much of the population, local fishing and pearl diving have declined because of industrial pollution. The catch totaled 11,718 tons in 2000. The government operates a fleet of seven trawlers. By encouraging traditional angling, giving incentives to fishermen, improving fishing and freezing equipment, and establishing cooperatives, the government is attempting to increase the annual catch. There is a modern fishing harbor at Al-Muharraq which provides docking and landing facilities, storage areas, an ice plant, and a water supply.

## 25 FORESTRY

There are no forests in Bahrain. In 2000, roundwood imports amounted to 32,000 cu m (1.1 million cu ft) and imports of wood-based panels totaled 20,000 cu m (700,000 cu ft). Bahrain's imports of forest products amounted to \$25.8 million that year.

## 26 MINING

Bahrain's oil-based economy produced few minerals other than crude oil and natural gas. Other minerals in 2000 accounted for \$211 million of the \$5.7 billion in export earnings, as compared to crude oil and refined petroleum products, which accounted for 70% of the total. Cement production was reported at 88,806 tons in 2000, down from 230,422 in 1998. Sulfur production was estimated at 66,400 tons in 2000.

## 27 ENERGY AND POWER

The Arabian Peninsula's first oil well was drilled in Bahrain in 1932, and production began in 1934. From the 1930s to the mid-1970s, oil development was a monopoly of the Bahrain Petroleum Co. (BAPCO), which in 1936 came under the ownership of Caltex, a corporation registered in Canada and jointly owned by Texaco and Standard Oil of California. In 1975, the Bahrain government acquired a 60% holding in BAPCO, and it later formed the Bahrain National Oil Co. (BANOCO) to take over full ownership. In 1980, BANOCO announced its acquisition of a 60% interest in Bahrain's main refinery, which had been wholly owned by Caltex.

Total daily crude petroleum production, after reaching a peak in 1970, has declined gradually. In 2001, total crude oil production was 35,000 barrels per day. Proven oil reserves in Bahrain were estimated at 125 million barrels in 2002. From

1972 until 1996, Bahrain shared revenues from the Abu Safa oil field, which lies halfway within Saudi Arabian territorial waters, with Saudi Arabia. In 1996, the Saudi government ceded the remainder of its share of the field to Bahrain, increasing the government's revenue by about \$200 million.

Bahrain gained the right to offer concessions in offshore oil fields in the Gulf of Bahrain after a territorial dispute with Qatar was settled by the International Court of Justice in March 2001 and Bahrain won control of the Hawar Islands. In November 2001 drilling rights were awarded to Petronas and Chevron Texaco, and oil exploration began in late 2002. As of early 2003 a \$900 million modernization was planned for Bahrain's only refinery, Sitra, which had a capacity of 248,900 barrels per day. Plans to build a second refinery, approved in 1999, had been delayed due to financing problems.

Bahrain's natural gas resources were estimated at 90 billion cu m (3.2 trillion cu ft) in late 2002. Production of gas was 8.5 billion cu m (300 billion cu ft) in 2000, most of which was associated with drilling in the Awali oil field.

The Directorate of Electricity operates plants at Manama, Sitra, and Riffaa. In 2000, net electricity generation was 5.9 billion kWh, of which 100% came from fossil fuels. In the same year, consumption of electricity totaled 5.4 billion kWh. Total installed capacity at the beginning of 2001 was 1.1 million kW. Power is principally derived from a municipal power station at Jufair, from the Sitra power and water station, from two gas turbines at Al-Muharraq, and from the power station at East Riffaa, which was completed in 1985 and is the largest and most modern. BANOCO produces its own electricity from a 60 MW plant. Phase One of the Hidd power project, completed in 1999, created an additional 280 MW of gas-fired generating capacity. Completion of Phase Two, which would add another 630 MW, was slated for 2004.

## 28 INDUSTRY

Petroleum refining, begun modestly in 1942, was Bahrain's first modern industrial enterprise. By 1976 the oil refinery at Sitra had reached its current capacity of about 250,000 barrels per day, far above local daily production rates of 35,000 barrels per day from the single active field at Awali, and about 86% of the oil is pumped from Saudi Arabia by sea and land lines. The refinery was owned and operated by the government-owned Bahrain Petroleum Company (BAPCO), which in a consolidation, which began in January 2000 and was completed on 1 June 2002, merged with the upstream state company, Bahrain National Oil Company to form Bahrain Petroleum Company (BSC). BSC will hence be charged with exploration, production, refining, marketing, and distribution of Bahraini oil for domestic use and the international market. Although modernization was delayed by the Gulf conflict, work began in 1992 to expand refining capacity to some 360,000 barrels per day. Much of the refurbishment has, however, been concentrated more on quality improvements than increases in quantity, and though in 1999 a record production rate was attained of 262,000 barrels per day, in January 2002 refinery capacity was estimated at 248,900 barrels per day by the US Department of Energy. Before it merged into the BSC, BAPCO announced a \$900 million modernization program that involves adding supplemental hydrocracking facilities. Achieving additional refinery capacity has shifted to the proposed construction of a second refinery, with a 500,000 barrels per day capacity, to be constructed by the Saudi firm Petroma. To date, however, the deal, though not formally cancelled, has been delayed for lack of financing. In 1999, a seven-year, \$800-million modernization plan started upgrading the refinery. Output was recorded at 260,000 barrels per day in 1999.

A government-controlled aluminum industry, Aluminum Bahrain BSC (ALBA), was launched in 1971 with an original

smelter capacity of 120,000 tons annually; the successful completion of a 1997 expansion project increased production to more than 500,000 metric tons in 1998. It is the world's second-largest aluminum smelter, and is 77%-owned by the government.

A gas liquefaction plant was opened by the Bahrain National Gas Co. (BANAGAS) in 1979. The Bahrain National Oil Company (BANACO) was planning to spend \$60 million in 1999 on new gas projects. The Arab Shipbuilding and Repair Yard, a pan-Arab industrial venture undertaken by OAPÉC, became operational in 1977. It is the Gulf's largest floating dock and repair facility, with expansion scheduled for 2000 involving up to \$200 million.

## 29 SCIENCE AND TECHNOLOGY

The economy depends heavily on advanced petrochemical technologies, and many Bahrainis have had or are receiving technical training. The University of Bahrain, at Isa Town, has a college of engineering and science. The Arabian Gulf University, founded in 1980 by the seven Gulf states, has colleges of medicine and applied sciences. The Bahrain Society of Engineers and the Bahrain Computer Society, in Manama, and the Bahrain Medical Society in Adliya, are leading professional groups. The College of Health Sciences, founded in 1976, had 528 students in 1996. The Bahrain Centre for Studies and Research, founded in 1981, conducts scientific study and research.

## 30 DOMESTIC TRADE

Bahraini shops have become increasingly modernized and specialized. American-style supermarkets are open in Manama and most supplies and services are available in shops throughout the country. Business hours for most shops are from 8:30 AM to 12:30 and from 4 to 8 PM, Saturday through Wednesday, with a half day on Thursday. Government offices and banks are generally open Saturday through Thursday. Of all the Gulf states, Bahrain offers the most scope for consumer advertising through its publications, cinemas, direct mail facilities, and radio and television stations.

## 31 FOREIGN TRADE

Petroleum products drive Bahrain's economy and export market (70%). Aluminum, which is manufactured in government-controlled enterprises, ranks as the country's second-largest export commodity (14%). Other exports include apparel (4.6%), iron (3.5%), and chemicals (2.5%).

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

Consumer goods	8.4%
Food	8.9%
Fuels	44.8%
Industrial supplies	22.4%
Machinery	10.3%
Transportation	3.6%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	348	186	162
Saudi Arabia	244	2,273	-2,029
Japan	93	168	-75
United Arab Emirates	80	108	-28
Korea	66	74	-8
India	63	95	-32
Netherlands	44	37	7
Italy	38	96	-58
Germany	25	155	-130
China	25	115	-90
United Kingdom	11	167	-156

### 32 BALANCE OF PAYMENTS

Traditionally, Bahrain relied on a substantial influx of funds from Sa'udi Arabia, Kuwait, Abu Dhabi, and Iran to finance capital outlays. In recent years, however, increased income from tourism and financial services, have placed Bahrain in a favorable payments position.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Bahrain's exports was \$5.5 billion while imports totaled \$4.5 billion resulting in a trade surplus of \$1 billion.

The International Monetary Fund (IMF) reports that in 2001 Bahrain had exports of goods totaling \$5.55 billion and imports totaling \$4.01 billion. The services credit totaled \$950 million and debit \$744 million.

Although oil imports decreased in the first quarter of 2001, there was a slight increase in non-oil imports.

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

<b>Current Account</b>	157
Balance on goods	1,536
Balance on services	206
Balance on income	-322
Current transfers	-1,264
<b>Capital Account</b>	100
<b>Financial Account</b>	-417
Direct investment abroad	-216
Direct investment in Bahrain	80
Portfolio investment assets	-1,448
Other investment assets	5,623
Portfolio investment liabilities	-31
Other investment liabilities	-4,426
<b>Net Errors and Omissions</b>	283
<b>Reserves and Related Items</b>	-124

### 33 BANKING AND SECURITIES

Bahrain is considered the pre-eminent financial services center in the Middle East. The Bahrain Monetary Agency (BMA), Bahrain's equivalent of a central bank, issues and redeems bank notes, regulates the value of the Bahrain dinar, supervises interest rates, and licenses and monitors the activities of money changers. One factor contributing to Bahrain's growth as a Middle Eastern financial services center is that unlike some of its larger, richer neighbors, there is no serious religious opposition to western banking practices—especially the accrual of interest—which some Islamic scholars consider to be contrary to Muslim teachings. There are, however, several large banks in Bahrain classified as Islamic; they don't pay or charge interest, don't finance or otherwise support "un-Islamic" enterprises, and make a conscious effort to invest in socially productive enterprises. Another important factor influencing the growth of the financial sector is the tax-free environment.

The value of assets and liabilities held by Bahrain's commercial banks rose by 43%, and offshore banking units (DBUs) rose by 20%; between 1991 and 1995. The consolidated assets and liabilities of commercial and offshore banks in Bahrain reached over \$82 million in 1997. In 2000, Bahrain was home to 20 full commercial banks, 2 specialized banks, 52 offshore banks, 37 representative offices, 33 investment banks, 6 foreign exchange and money brokers, 8 investment and financial advisory services, and 18 money-changing companies. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.9%.

The Bahrain Stock Exchange (BSE) was planned in 1987 after the unofficial Kuwait Stock Exchange collapsed. The BSE has become an important Gulf center of share trading; volume or shares increased from its inception from 62 million in 1989 to almost 400 million in 1993. Beginning in 1995, the BSE listed foreign companies, bonds, and investment funds. Trading in foreign investment vehicles was made open to all Bahrainis, and resident and non-resident foreigners in late 1996. Between 2000 and 2001, the index fell about 2.5%. There were 34 funds and 41 companies listed on the BSE in 1999. The total value, volume, and number of transactions of shares traded in 1999 declined from 1998 by 23%, 13%, and 27% respectively. The top three firms, Investcorp, the Bahrain Telecommunications Company (BATELCO), and the Arab Banking Corporation, account for over one-half of the exchange's total market capitalization of \$7.3 billion in 1999.

### 34 INSURANCE

The total premiums underwritten in 1996 in Bahrain equaled approximately \$100 million. Over 100 insurance companies were operating in Bahrain in 2000. In 2001, life insurance premiums totaled \$34 million. In 1999, the total insurance expenditure for Bahrain was \$192 million, or 2% of its gross domestic product (GDP).

### 35 PUBLIC FINANCE

The budget is presented biennially and regularly updated, and represents a large section of economic activity. More than half of government revenues come from oil production and refining; the oil industry is completely controlled by the government. The public deficit is covered by internal borrowing, loans from Arab funds, and the IDB; although privatization has become increasingly important to controlling the budget. The oil and aluminum industries are still controlled by the government, although utilities, banks, financial services, and telecommunications have started to fall into private hands.

The US Central Intelligence Agency (CIA) estimates that in 2002 Bahrain's central government took in revenues of approximately \$1.8 billion and had expenditures of \$2.2 billion including capital expenditures of \$700 million. Overall, the government registered a deficit of approximately \$400 million. External debt totaled \$2.8 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.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>1,800</b>
Tax revenue	21.4%	384
Non-tax revenue	74.9%	1,348
Capital revenue	<0.1%	1
Grants	3.7%	67
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>2,200</b>
General public services	29.5%	648
Defense	15.2%	335
Public order and safety	12.3%	270
Education	13.3%	293
Health	7.8%	171
Social security	7.5%	166
Housing and community amenities	3.7%	81
Recreation, cultural, and religious affairs	0.5%	12
Economic affairs and services	3.9%	86
Interest payments	6.2%	137

### 36 TAXATION

The only taxes in Bahrain are an income tax on oil production and a municipal tax of 10% on residential rents; the rate is 7.5% on furnished rentals, office, and commercial rents. As an offshore tax haven, Bahrain allows foreign firms to remit accumulated profits and capital without taxation.

### 37 CUSTOMS AND DUTIES

Import licenses for items sold in Bahrain are issued only to local companies that are at least 51% Bahraini-owned. Principal prohibited items are arms, ammunition, liquor (except by authorized importers), and cultured pearls. Customs duties are 20% on corn and palm oil (duties for most foodstuffs were abolished in 2000); 10% on non-essential goods; 20% on cars and boats; 100% on tobacco and cigarettes; and 12.5% on authorized imports of liquor.

A free transit zone operates at the port of Mina Sulman. Free trade is available with Gulf Cooperation Council (GCC) countries if products have at least 40% local value-added content.

### 38 FOREIGN INVESTMENT

While continuing to encourage foreign investment, the government has acquired majority holdings in most of the country's principal enterprises that were formerly foreign held. The government offers substantial incentives for companies wishing to establish plants in Bahrain. With the exception of petroleum royalties, Bahrain does not tax either corporate or individual earnings.

As of 1999, the Bahraini government had no vehicle for reporting statistics on foreign investment. Some of the larger foreign-owned or controlled companies in 1999 included the following: Aluminum Bahrain and the Gulf Petrochemical Industries Complex, both joint investments controlled by several Gulf states; the Arab Shipbuilding and Repair Yard, owned by several Gulf states; and the Bahrain Telecommunications Company, 20%-owned by Cable and Wireless. There were at least 90 US companies operating in Bahrain in 1999, including Kimberly-Clark, Coca-Cola, Shaw Industries, and DHL.

### 39 ECONOMIC DEVELOPMENT

Since the late 1960s, the government has concentrated on policies and projects that will provide sufficient diversification in industrial, commercial, and financial activities to sustain growth in income, employment, and exports into the post-oil era. Despite diversification efforts, the oil and gas sectors remain the cornerstone of the economy.

### 40 SOCIAL DEVELOPMENT

Impoverished families receive subsistence allowances from the Ministry of Labor and Social Affairs. Free child guidance clinics—the first in the Gulf—and expanded benefit and pension provisions for government employees were introduced in 1975. A social security fund provides old age, disability, survivor, and accident insurance. Contributions amount to 5% of earnings by workers and 7% by employers. For accident insurance, the insured pays nothing and the employer contributes 3% of payroll. Work injury insurance exempts domestic servants, self-employed and agricultural workers.

Islamic law, either Shi'a or Sunni, dictates the legal rights of Bahraini women. Women may initiate divorce proceedings, own and inherit property, and represent themselves in legal matters. However, men retain legal rights over children, even in case of divorce. Custody of young children is granted to women, but fathers automatically regain custody when the children reach the age of 9 (for daughters) and 7 (for sons). Unlike other fundamentalist nations, women are permitted to work, drive cars,

and wear Western-style clothing. Women make up over 20% of the labor force, and their employment is encouraged by the government. However, the majority of working women are young and single, and most women cease working outside the home after marriage. Bahrain's labor law does not recognize the concept of equal pay for equal work. Spousal abuse is common and women rarely seek assistance from authorities.

A small group of Shi'a originally of Iranian origin have been refused full citizenship under the Citizenship Act of 1963. These residents are second or third generation residents of Bahrain, but are unable to obtain a passport and are prohibited from owning land.

Bahrain's government regularly violates citizens' human rights. There was a continuation of torture, arbitrary arrest, denial of the right to a fair trial, and restrictions on freedom of speech, press, assembly, association, and workers' rights.

### 41 HEALTH

In 1960, Bahrain inaugurated a free national health service, available to both foreign and indigenous segments of the population through a system of primary care health centers and modern hospital facilities. Bahraini patients who require sophisticated surgery or treatment are sent abroad at government expense.

Medical services are provided by the government and a small private sector. Health care centers are accessible to the population free of charge. In 1990, there were 4 government-operated hospitals (including a psychiatric hospital and a geriatric hospital), 5 maternity hospitals, 19 health centers, 6 environment health centers, and 16 maternity and child welfare centers. In 1991, Bahrain had 668 physicians, 123 pharmacists, and 66 dentists. In 1997, there were an estimated 1 physician, 2.8 nurses, 0.09 dentists, and 0.2 pharmacists per 1,000 people. The effects of the Gulf War have endangered the health of many of Bahrain's people. Acute asthmatic attacks increased during the years after the war (1991–1993).

Infant mortality was 14.8 per 1,000 live births in 1999. The 1999 birth rate was 21.9 per 1,000 people and the general mortality rate was 3.2 per 1,000 people. In 1994, 93% of the country's one-year-old children were vaccinated against measles. In 1990, 100% of the population had access to health care services and 93% had access to safe drinking water. Life expectancy in 1994 was 71 years. In Bahrain, there were 28 new cases of AIDS in 1996. Malaria was reported in 258 people while polio, measles, and neonatal tetanus were non-existent.

### 42 HOUSING

According to the 2001 government census, there were 105,686 housing units within the country. About 18% were private villas (single family, independent structure homes). There were 8,076 apartment buildings containing a total of about 36,320 flats. About 72% of all units were connected to the public water system. About 14.8% of homes used relied on bottled water. About 63,374 units were occupied by single (nuclear) families. The greatest number of housing units (32,538) were available in Manama.

### 43 EDUCATION

Bahrain introduced a free public education system to the Gulf region in 1919. The government aims to provide free educational opportunities for all children. Education was only recently made compulsory. As of 1999, public expenditure on education was estimated at 3.7% of GDP.

For the year 2000, adult illiteracy rates were estimated at 12.4% (males, 9.0%; females, 17.3%). Bahrain has the highest female literacy rate in the Arabian Gulf. As of 1999, the female share of primary enrollment was estimated at 48.7%. The official language is Arabic, but English is widely spoken. School

education is in three stages: primary lasts for six years, intermediate for three years, and secondary—general, industrial, or commercial—for three years. Primary and secondary curricula includes a nine-year course in Religious Study. Nearly 100% of primary-school-age children attend school, while 85% attend secondary school. In 1997 primary schools enrolled 72,876 students. Also in 1997 secondary schools enrolled 57,184 students, taught by approximately 3,200 teachers.

Bahrain's principal university is the University of Bahrain, established in 1986 after a merger between the University College and Gulf Polytechnic. It is comprised of five colleges and an English language center: colleges of arts, sciences, engineering, education, and business administration. The Arabian Gulf University (founded in 1980) has faculties in science, engineering and medicine, and is in fact a joint venture project among the six Gulf Cooperation Council members and Iraq. Each nation is allocated 10% of the seats (total 70%) and the remaining 30% are given to other countries. Also important is the Bahrain Training Institute, which currently has over 50% female students.

There are also 67 adult education centers in Bahrain, which have helped to reduce the illiteracy rate of the country. For promoting technical education, a "10,000 Training Plan" was launched in 1980. Nearly 6,500 students have participated in this program since its inception and scholarships are given to students to pursue higher studies at Bahrain or abroad. In 1994 all institutions of higher learning had 655 teachers and enrolled 7,147 students.

#### 44 LIBRARIES AND MUSEUMS

The Central Public Library in Isa Town has 124,000 volumes. The University of Bahrain in Manama (1978) holds 140,000 volumes, while the Manama Central Library holds 155,000 volumes. In 2003, the first specialized law library opened at the University's Sakhir campus. Bahrain National Museum in Manama holds art, archaeological and historical exhibits, chronicling the rise of the Dilmun civilization.

#### 45 MEDIA

Modern telephone, cable, and telex systems are available; mainline telephones numbered 152,400 in 1997. The same year, there were about 58,543 cellular phones in use nationwide.

In 1998, there were 2 AM and 3 FM stations and 4 broadcast television stations. All of which were owned and operated by the government. In 1997 there were 499 radios and 420 television sets in use per 1,000 population. Internet service is provided through the national phone company, with 105,000 subscribers counted in 2001. Government control restricts access to some sites considered with content that is considered anti-Islamic or anti-government.

Bahrain's first daily newspaper in Arabic, *Akhbar al-Khalij* (circulation 17,000 in 2002), began publication in 1976, and the first English daily, the *Gulf Daily News* (50,000), was established in 1991. *Al Ayam*, an Arabic daily founded in 1989, had a 2002 circulation of 37,000.

Though the Bahraini Constitution has provisions for freedom of expression, press criticism of the ruling family or government policy is strictly prohibited.

#### 46 ORGANIZATIONS

In addition to the Chamber of Commerce and Industry, there are numerous Bahraini and multinational groups, including the Bahrain Red Crescent Society and the Children's and Mothers' Welfare Society. Youth organizations include those representing the Youth Hostel Federation, Red Crescent Youth, Boys and Girl Scouts, and Arab Student Aid International (ASAI). The Bahrain Olympic Committee coordinates activities for about 12 national youth sports federations.

#### 47 TOURISM, TRAVEL, AND RECREATION

Bahrain has been a fast growing destination in the Middle East since the early 1990s. Tourist attractions include archeological sites, notably Qal-at Al-Bahrain (The Portuguese Fort), the National Museum, and the Heritage Center. In 2000, there were 3,868,738 tourist arrivals, almost 3,000,000 from other Middle Eastern countries, and tourism receipts totaled \$469 million. Most visitors need a visa and valid passport.

The US State Department estimated the daily cost of staying in Bahrain at \$271 in 2001.

#### 48 FAMOUS BAHRAINIS

Sheikh 'Isa bin Salman al-Khalifa (b. 1933) ruled from 1961 until his death in 1999. He was succeeded by his son, Sheikh Hamad bin 'Isa al-Khalifa (b.1950).

#### 49 DEPENDENCIES

Bahrain has no territories or colonies.

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# BANGLADESH

People's Republic of Bangladesh

*Gana-Prajatantri Bangladesh*

**CAPITAL:** Dhaka (formerly Dacca)

**FLAG:** The national flag is a red circle against a dark-green background.

**ANTHEM:** *Amar Sonar Bangla (My Golden Bengal)*.

**MONETARY UNIT:** The taka (T) of 100 poisha is a paper currency set on a par with the Indian rupee. There are coins of 1, 2, 5, 10, 25, and 50 poisha, and notes of 1, 5, 10, 20, 50, and 100 taka. T1 = \$0.0173 (or \$1 = T58.00) as of May 2003.

**WEIGHTS AND MEASURES:** Bangladesh adopted the metric system as of 1 July 1982. Customary numerical units include the lakh (equal to 100,000) and the crore (equal to 10 million).

**HOLIDAYS:** New Year's Day, 1 January; National Mourning Day (Shaheel Day), 21 February; Independence Day, 26 March; May Day, 1 May; Victory Day, 16 December; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Jamat Wida, Shab-i-Bharat, 'Id al-Fitr, 'Id al-'Adha', and Durga Puja.

**TIME:** 6 PM = noon GMT.

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

Situated in South Asia, Bangladesh, before it became an independent state, was the eastern province of Pakistan, known as East Bengal and, later, as East Pakistan. Bangladesh is slightly smaller than the state of Iowa with a total area of 144,000 sq km (55,598 sq mi), extending 767 km (477 mi) SSE–NNW and 429 km (267 mi) ENE–WSW. Bangladesh is bordered in the W, N, and E by India, on the SE by Myanmar (Burma), and on the S by the Bay of Bengal, with a total boundary length of 4,246 km (2,638 mi). A border demarcation agreement was signed with Myanmar in May 1979. Demarcation of the marine boundary with India remains unresolved. Bangladesh's capital city, Dhaka, is located near the center of the country.

## <sup>2</sup>TOPOGRAPHY

Bangladesh is a tropical country, situated mainly on the deltas of large rivers flowing from the Himalayas. The Brahmaputra River, known locally as the Jamuna, unites with part of the Ganges to form the Padma, which, after its juncture with a third large river, the Meghna, flows into the Bay of Bengal. Offshoots of the Ganges-Padma, including the Burishwar, Garai, Kobadak, and Madhumati, also flow south to the Bay of Bengal. No part of the delta area is more than 150 m (500 ft) above sea level, and most of it is but a meter or two (a few feet) above sea level. Its soil consists mostly of fertile alluvium, which is intensively farmed; mineral deposits are negligible. During the rainy season floodwater covers most of the land surface, damaging crops and injuring the economy. The northwestern section of the country, drained by the Tista (Teesta) River, is somewhat higher and less flat, but the only really hilly regions are in the east, notably in the Chittagong Hill Tracts to the southeast and the Sylhet District to the northeast. Near the Myanmar border, in the extreme southeast, is the Keokradong, which at 1,230 m (4,034 ft) is the highest peak in Bangladesh.

## <sup>3</sup>CLIMATE

Bangladesh has a tropical monsoon climate. Annual rainfall is high, averaging from about 119 cm (47 in) up to 145 cm (57 in). There are three distinct seasons. The winter, which lasts from October through early March, is cool and dry, with temperature ranges from 5°C to 22°C (41°F to 72°F); total winter rainfall averages about 18 cm (7 in) in the east and less than 8 cm (3 in) in the northwest. Temperatures rise rapidly in March, and during the summer season—March through May—average about 32°C (90°F). Rainfall also increases during this period. However, nearly 80% of the annual rainfall falls from May to September, the monsoon season, when moisture-laden winds blow from the south and southeast. Temperatures drop somewhat, seldom exceeding 31°C (88°F), but humidity remains high. In April through June and from October through November, tropical cyclones, accompanied by high seas and heavy flooding, are common. There were cyclones in May 1963, May and December 1965, October 1966, and most notably during the night of 12–13 November 1970, when a storm and resultant flooding killed more than 200,000 persons. A cyclone on 30 April 1991 left over 131,000 people dead and nine million homeless. Monsoon floods in 1974, 1980, and 1983 also devastated the country and caused many deaths, and a cyclonic storm on 24–25 May 1985 took more than 11,000 lives. The monsoon in August and September 1988 left three-fourths of the country flooded, 1,300 persons dead, and over three million people homeless, with damage to the country's infrastructure estimated at \$1 billion.

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

Bangladesh has the plant and animal life typical of a tropical and riverine swamp. The landscape, which for most of the year is lush green, is dotted with palms and flowering trees. The large forest area of the Sunderbans in the southwest is the home of the endangered Bengal tiger; there are also cheetahs, leopards, crocodiles, elephants, spotted deer, monkeys, boars, bears, pheasants, and many varieties of birds and waterfowl.

## 5 ENVIRONMENT

Overpopulation has severely strained Bangladesh's limited natural resources. Nearly all arable land is already cultivated and forestland has been greatly reduced by agricultural expansion and by timber and firewood cutting. Between 1983 and 1993, forest and woodland declined by 12.5% to 1.9 million ha (4.7 million acres). As of 1995, total forest area was only 1 million ha. Bangladesh's environmental problems have been complicated by natural disasters that add to the strain on an agricultural system which supports one of the world's most populous countries. Water supply is also a major problem because of population size, lack of purification procedures, and the spread of untreated contaminants into the usable water supply by flood waters. To ease these problems, the government has established drainage, irrigation, and flood protection systems, and has drilled thousands of tube wells to supply safe drinking water in villages. As of 2001, safe water was available to 100% of the population.

Despite passage of the Wildlife Preservation Act of 1973, wildlife continues to suffer from human encroachment. Only 0.7% of the country's total land area is protected. In 2001, 18 species of mammals, 30 species of birds and 18 plant species were considered endangered, including the Asian elephant, pygmy hog, Sumatran rhinoceros, Bengal tiger, estuarine crocodile, gavial, and river terrapin.

## 6 POPULATION

The population of Bangladesh in 2003 was estimated by the United Nations at 146,736,000, which placed it as number 7 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 105 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.02%, with the projected population for the year 2015 at 181,428,000. The population density in 2002 was 928 per sq km (2,403 per sq mi).

It was estimated by the Population Reference Bureau that 25% of the population lived in urban areas in 2001, up from 11% in 1980. The capital city, Dhaka, had a population of 11,726,000 in 2002. Other large cities are Chittagong, Khulna, Rajshahi, Barisal, Rangpur, and Jessore. According to the United Nations, the urban population growth rate for 2000–2005 was 4.0%. The population is still heavily rural, with the great majority living in more than 85,000 villages.

Bangladesh is one of the world's most densely populated nations, and controlling population growth is a major government priority. The annual population growth declined from 3.4% in 1975 to 2.2% in 1991 to an estimated 1.9% in 1996. However, the growth rate is on the rise, and the country remains vastly impoverished. Life expectancy is 59 years, and infant mortality rates remain high.

## 7 MIGRATION

Since 1947 there has been a regular interchange of population between India and what is now Bangladesh, with Hindus migrating to India and Muslims emigrating from India. There was also substantial migration between Bangladesh (then East Pakistan) and West Pakistan until the 1971 war. Before and during the war, an estimated 8 to 10 million Bengalis fled to India; most of these refugees returned after the independence of Bangladesh was firmly established. Although more than 100,000 *Biharis* who had sided with Pakistan during the war later migrated to Pakistan, an estimated 238,000 *Biharis* were still living in 66 refugee camps in Bangladesh at the end of 1993, despite a repatriation agreement signed in 1992.

In 1993, repatriation began of an estimated 56,000 Chakma refugees from the Indian state of Tripura to the Chittagong Hill

Tracts of Bangladesh. They had fled unrest in this area. As of May 1997, 47,000 Chakma refugees still live in northeastern India. In 1991–92 about 265,000 Rohingyas—Muslims from Myanmar—fled to Bangladesh to escape repression. Beginning in 1994, over 200,000 of these refugees have returned home to Myanmar (Burma). However, as of 1999, around 22,000 Myanmar refugees still resided in southern Bangladesh in two camps. The repatriation process was suspended in 1997 but resumed in 1998. Nevertheless, the number of returns has been very limited (only 450 between 1998 and 1999) due to procedural difficulties. The UN has urged the governments of both Bangladesh and Myanmar to accelerate the process. Also, talks have been initiated regarding refugee self-reliance programs for those refugees who cannot or will not return. Reforestation and community support activities have been discussed as possible ways to lessen any adverse consequences of refugee presence. Bangladeshi authorities have not responded favorably to the proposed self-reliance programs for refugees, reiterating their position that all refugees must return to their homeland.

As of 2000, there were approximately 988,000 migrants living in Bangladesh. The net migration rate was -0.5 per 1,000 population. The government viewed the emigration level as too low, and the immigration level was deemed satisfactory.

## 8 ETHNIC GROUPS

Some 98% of the people are Bengalis (or Banglas). About 12 tribes inhabiting the Chittagong Hill Tracts, collectively totaling less than one million people, are ethnically distinct from the Bengalis; their facial features and language are closer to the Burmese. The government's policy of resettling Bengalis in the region, which is much less densely populated than Bangladesh as a whole, led to racial and religious disturbances and a small-scale tribal insurgency in the early 1980s. About 250,000 of the national population consists of *Biharis*, non-Bengali Muslims who migrated from India to what was then East Pakistan after the partition of the subcontinent in 1947. In the coastal areas of Bangladesh, Arab, Portuguese, and Dutch settlers have gradually come to adopt the Bengali life-style.

## 9 LANGUAGES

Bengali (Bangla), part of the Indo-European language family, is the official language of Bangladesh and is spoken by about 98% of the population. The successful move to make Bengali coequal with Urdu as an official language was a hallmark of Bengali nationalism in the early 1950s. Non-Bengali migrants from India still speak Urdu (and Hindi) today, and this language is widely understood in urban areas. A few tribal groups, notably the tribal peoples of the Chittagong Hill Tracts, also speak distinct Tibeto-Burmese languages, akin to Burmese and Assamese. Among those speaking Bangla there are differences of dialect according to region. The people of Chittagong, Noakhali, and Sylhet are known for their distinctive dialects. Although today Bangla is the official language, English is also used for official and legal purposes and widely used in business.

## 10 RELIGIONS

Nearly 88% of the people are believers in Islam (mostly Sunni), making Bangladesh one of the world's largest Muslim countries. Most of the remaining population, about 10% are Hindu; the remaining 1.2% are mainly Buddhist or Christian, the latter evenly divided between Roman Catholics and Protestants. There are small numbers of Shi'a Muslims, Sikhs, Baha'is, Ahmadis, and animists. Although Islam was established as the state religion in 1988, freedom of worship continues to be guaranteed under its constitution.





LOCATION: 20°34' to 26°38' N; 88°1' to 92°41' E. BOUNDARY LENGTHS: India, 4,053 kilometers (2,553 miles); Myanmar, 193 kilometers (122 miles); Bay of Bengal coastline, 580 kilometers (324 miles). TERRITORIAL SEA LIMIT: 12 miles.

## 11 TRANSPORTATION

The large number of rivers and the annual flooding hazard make it difficult to build and maintain adequate transportation facilities in Bangladesh. Railways and waterways are the chief means of transportation. The railways are managed by the government and reach most districts of the country. The Bangladesh Railway operated 2,745 km (1,706 mi) of track in 2002. The quality of service has declined because of the expense of importing new equipment. Enlarging and improving the railway system is also costly, partly because of the number of bridges needed.

The country has two deepwater ports: Chittagong, serving the eastern sector, and Chalna, serving the west. There are five main river ports—Dhaka, Nārāyanganj, Chandpur, Barisal, and Khulna—and more than 1,500 smaller ports. The inland water system has an estimated 5,150-8,046 km (3,200-5,000 mi) of navigable waterways, including 2,575-3,058 km (1,600-1,900 mi) of main cargo routes. The oceangoing merchant fleet in 2002 consisted of 34 ships of 1,000 GRT or over, with a combined capacity of 269,932 GRT.

Road connections are inadequate, but conditions have improved significantly in recent years. There were 201,182 km (125,014 mi) of roadways in 2002, of which 19,112 km (11,876 mi) were paved. A large part of the highway system becomes submerged in the rainy season; bridges, ferries, embankments, and dikes are therefore necessary to the inland transportation system. Because of the difficulties of land travel, the number of motor vehicles remains relatively small.

Bangladesh had 18 airports in 2001, 15 with paved runways. Zia International is the principal airport, located at Dhaka. Bangladesh Biman is the national airline. It has an extended network connecting major cities and operates international flights from Dhaka. In 2001, airlines carried 1,450,000 domestic and international passengers.

## 12 HISTORY

In ancient times, the area now known as Bangladesh was the eastern portion of a huge river delta region called Bang, where the Ganges and Brahmaputra River systems empty into the Bay of Bengal and the Indian Ocean. The region became known as Bengal in more modern times, but recorded history of the region can be traced to the 4th century BC when it was home to an apparently flourishing riverain civilization. The oldest surviving remains of this civilization are the ruins of the city of Mahasthan, the ancient Pundranagar, which continued to flourish for more than 1,500 years, even though the region was conquered by the Hindu Maurya empire that reached its height under Emperor Asoka around 207 BC. From this time onward, the history of Bengal was part of the wider historical experience of the Indian subcontinent, and during most of India's classical Hindu period—AD 320 to AD 1000—Bengal was a loosely incorporated outpost of empires centered in the Gangetic plain.

Islam came to South Asia in the years following AD 800 but did not reach Bengal until Muslim invaders from the west secured a foothold there around AD 1200. In the 13th and 14th centuries, after successive waves of Turkish, Persian, and Afghan invaders, Islam began to take a firm hold in the area that is now Bangladesh. The region was annexed by the Mughal Empire in 1576 under the Muslim Akbar and ruled by his successors into the 17th century. The fealty lesser Nawabs (or Nabobs) of the Bengal area paid to the Mughals ensured the political stability and economic prosperity of the region, which became known for its industries based on the weaving of silk and cotton cloth.

The arrival of the French and British East India Companies in the early 18th century coincided with Mughal decline, the death of Emperor Aurangzeb, and an intense period of competition and conflict between Britain and France. By the middle of the 18th century, the British emerged supreme in what they created as the Bengal Presidency, establishing themselves in Calcutta and expanding with alacrity into all of what is now Bangladesh, as well as the Indian states of West Bengal, Bihar, Assam and Orissa. From Calcutta, British traders and administrators successfully played off rivalries among the satraps of the late Mughal empire to gain control of most of the subcontinent in the years between the Battle of Plassey in 1756 and the assumption of the company's domain by the British Crown in 1859. Calcutta remained the seat of British power in the subcontinent and the center of British control over the Indian Empire until 1931 when

the capital was moved to the new city of New Delhi, adjacent to the traditional seat of Mughal power in old Delhi.

In general, Hindus in Bengal prospered under the British, apparently taking more easily to British ways and British law than the numerically dominant Muslims. The Muslim aristocracy of eastern Bengal—feudal barons under the Mughals—resisted British rule. By the turn of the 20th century, both communities had begun to develop a political-cum-cultural consciousness of their own in reaction to the Western culture brought by the British. They took offense at British efforts to impose western educational systems on local universities, reducing their independence. Hindus were further enraged by the British decision in 1905, in an effort to improve administration and to placate Muslims, to divide the overly large Bengal Presidency in two, with the Muslim-dominant area of eastern Bengal and Assam to be a separate province. The 1905 partition was the first acknowledgment of a sense of separateness among Muslims by the British and foreshadowed events of 42 years later when Bengal was divided between Muslim-majority and Hindu-majority districts to create East Pakistan.

The 1905 action was strongly opposed by Bengali Hindus and resulted in increasing acts of violence. This lasted until it was undone six years later in favor of reuniting Bengal and instead separating out what would become the provinces of Orissa and Bihar. But the agitation provoked by the 1905 partition and the Hindu-Muslim enmities it left behind continued to provoke terrorist actions against British rule until headed off by the evolution of nonviolence as a mode of political struggle, as later enunciated in the cause of Indian self-rule by Mohandas (Mahatma) Gandhi of the Indian National Congress.

British reforms in 1909 and 1919 expanded local self-rule in their Indian domains, but the pace fell short of the pace of demands put forth by the rising tide of nationalists espoused by the Indian National Congress, which in 1929 committed itself to the goal of complete independence. As the struggle gained momentum, the majority Hindu and minority Muslim communities in India as a whole began to divide on the eventual “end game.” While the majority Hindu community saw a single Indian polity committed to secularism and diversity as the goal of the independence movement, Muslims came to fear that their community would be a permanent electoral minority, an anxiety they saw borne out in the 1937 elections held under British auspices. To look after their unique cultural interests, they formed the All-India Muslim League, and under the Muslim League leadership, sentiment began to coalesce around the “two nation” theory propounded earlier by the poet Iqbal, a belief that South Asian Muslims and Hindus were and should be two separate nations, i.e. that Muslims required the creation of an independent nation of their own—Pakistan—in which they would predominate. In 1940, the Muslim League adopted this as its goal, under the leadership of Mohammad Ali Jinnah, a Mumbai (formerly Bombay) attorney who resisted all efforts at compromise through all the difficult days leading up to the grant of independence in 1947.

In language, culture, ethnic background, population density, political experience, and economic potential, East and West Pakistan were totally disparate—the main bonds being Islam and a fear of potential Indian (Hindu) revanchism. Pakistan’s early years as a nation were dominated by unsuccessful attempts—punctuated by bouts of authoritarian rule—to create a national polity that would somehow bridge these differences. Larger in population and in economic importance than the west wing, the Bengali east wing chafed under national policies effectively dominated by the leadership residing in the west wing. When its influence was further reduced under repeated bouts of martial law and by the reconstruction of West Pakistan as a single province, demands for autonomy in the east began to mount. This insistent demand for autonomy in East Pakistan proved

more than the fragile sense of Islamic nationhood could sustain. The new state of Pakistan, made up of Muslim-majority districts in both eastern and western reaches of formerly British India, was at best an unwieldy creation. It cut across long-established lines of trade and communication, divided families, provoked a mass movement of millions of refugees caught on the “wrong” side of the partition markers, and forced the creation of a new but divided polity. Pakistan consisted of two distinct territories, separated by 1,600 km (1,000 mi) of secular but predominantly Hindu India. West Pakistan, with a population of 34 million, consisted mainly of the former provinces of Baluchistan, Sindh, the Northwest Frontier, and (partially) Punjab (which, like Bengal, was also partitioned). East Pakistan, its 42 million people including nearly 9 million Hindus, encompassed the eastern half of Bengal province as shaped in 1912, plus the Sylhet District of Assam.

### Nationhood

After yet another round of martial law in Pakistan in 1969, national elections were scheduled for 1970. But when the popular verdict in those elections—even in the national assembly—supported greater autonomy for East Pakistan than the West Pakistan-dominated national leadership was prepared to accord, the results were set aside.

Subsequent civil unrest escalated quickly to civil war in East Pakistan. Swamped with a million refugees from the fighting, India intervened militarily in December 1971, tipping the scales in favor of the rebels and facilitating the creation of Bangladesh in 1972. Sheikh Mujibur (Mujib) Rahman, leader of the Awami League and of the fight for autonomy, was released from prison in West Pakistan (which became the Islamic Republic of Pakistan) and became prime minister of the new nation of Bangladesh.

The 1971 civil war was a disaster for Bangladesh, undoing much of the limited progress East Pakistan had made in recovering from the socioeconomic disruption of the 1947 partition. The charismatic Mujib faced a task for which his administrative and political experience was lacking. He fought and won a massive victory at the polls in 1973, but two years later, he suspended the political process and took power into his own hands. Bangla opinion turned against Mujib, coalescing two main opposition groups that otherwise shared little in common besides their opposition to Mujib and to Indian influence: they were the ultra conservative Islamic groups, led by the Jamaat-i-Islami, and the radical left, led by Maoists, who opposed both Indian and Soviet influence.

On 15 August 1975, a group of young military officers seized power, killing Mujib and many of his family members and imposing martial law. A counter-coup three months later produced a new military government with Gen. Zia-ur Rahman at its head. In 1978, with limited political activity permitted, he was elected president and lifted martial law. In February 1979, he restored parliamentary government after elections gave his new party, the Bangladesh National Party (BNP) a two-thirds majority in the National Assembly.

Zia’s assassination during an abortive military coup in May 1981 set back the progress he had made. He was succeeded in power by his vice president, Abdus Sattar, who was deposed the following March by his army chief, Gen. Hussain Mohammad Ershad. Declaring martial law, Ershad became Chief Martial Law Administrator (CMLA), suspended the 1972 constitution, and banned political parties.

Ershad gained support by cracking down on corruption and opening up the economy to foreign collaboration. In 1983, he assumed the presidency, and by January 1986, he had restored full political activity in which his own party, the Jatiya (People’s) Party took a prominent part. He retired from the army and was elected president without opposition in October 1986, but in July 1987, mounting opposition to his often dictatorial rule among

the united opposition parties led him again to declare a state of emergency, dissolve the assembly, and schedule new elections for March 1988. His Jatiya Party triumphed in those elections, due mainly to the refusal of the opposition parties to participate. At the end of 1990, in the face of widespread demonstrations and some Hindu-Muslim violence, his opposition had grown so strong that Ershad was forced to resign the presidency, turning the government over to Supreme Court Chief Justice Shahabuddin Ahmed, the unanimous choice of the opposition parties.

An interim government scheduled elections for February 1991, and the result—in what has been described as the fairest polling ever held in the country—was the election of an assembly in which the BNP, now headed by Begum Khaleda Zia-ur Rahman, Zia's widow, held a plurality. However, the BNP lost popular support by March 1994, when opposition parties walked out of Parliament and boycotted the government, claiming the BNP had rigged a regional election. The main opposition groups—the Awami League (AL), Jatiya Party, and the Jamaat-e-Islami—continued the protest for two years, boycotting February 1996 elections swept by the BNP. Amid further charges of vote-rigging, Khaleda Zia resigned, the BNP dissolved Parliament, and a caretaker government conducted new elections in June 1996. The Awami League, led by Sheikh Hasina Wajed, daughter of the Sheikh Mujid, gained control of Parliament in the elections, contested by all parties and monitored by international observers. Although initially dependent on the support of the Jatiya Party to form a government, by late September the Awami League held an absolute majority of seats in the legislature.

Prime Minister Sheikh Hasina had no easier time ruling Bangladesh than her predecessor. Her government faced continuing protests, strikes, and often violent demonstrations organized by the BNP and other opposition parties. Targets for such actions included the government's historic agreement with India in December 1996 over sharing the waters of the River Ganges, higher taxes imposed by the government in July 1997, and problems of law and order in the country. During September 1997, Islamic militants took to the streets demanding the arrest and execution of controversial Bangladeshi author Taslima Nasreen. November 1998 saw a general strike organized by the BNP over alleged government repression and clashes between police and protesters over alleged electoral fraud. Tensions were heightened by the conviction and death sentences passed on several people involved in the assassination of Sheikh Hasina's father, Sheikh Mujib.

In August 1998, Bangladesh also saw some of the worst flooding in the country's history. Over 1,000 people died and flood waters covered some 60% of the country. Loss of crops raised the specter of widespread famine, and the total damage to the country's economy and infrastructure was estimated at over US\$2 billion.

Among the AL government's achievements, however, were the Ganges water-sharing treaty, the December 1997 accord that ended the tribal insurgency in the Chittagong Hill Tracts (CHT) in southeastern Bangladesh, and a restructuring of local government to increase grassroots involvement in politics. On the international stage, Bangladesh was elected to serve a two-year term on the Security Council of the United Nations, effective 1 January 2000. Bill Clinton became the first US president to visit Bangladesh when he stopped there during his South Asia tour in March 2000.

In December 2000, Bangladesh expelled a Pakistani diplomat for stating that the number of dead in the 1971 war was 26,000, whereas Bangladesh holds that nearly three million were killed. Bangladesh wanted Pakistan to apologize for the alleged genocide it says Pakistani forces were guilty of during the 1971 war. In July 2002, Pakistan's President Gen. Pervez Musharraf visited Dhaka, and made an apology for excesses committed in Bangladesh's war

for independence. His visit was seen as an attempt to build bridges with a country that regards Pakistan as a former colonizer.

A series of bombings beset Bangladesh during 2001, in April, June, and September. In total, 155 people were killed and more than 2,500 were injured in violence leading up to the October 2001 parliamentary elections. In July, Prime Minister Hasina stepped down, handing power over to a caretaker authority that supervised the upcoming elections; she became the first prime minister in the country's history to complete a full five-year term. Former Prime Minister Khaleda Zia won a landslide victory on 1 October 2001, campaigning against lawlessness and corruption, in an election in which 75% of the registered voters went to the polls. The Awami League boycotted Parliament, protesting alleged rigging of elections and the persecution of religious minorities.

In March 2002, the government enacted tough laws to combat the use of corrosive acid to disfigure and sometimes kill individuals, mostly women. The death penalty was set as the maximum sentence in some cases. In 2001, 338 acid attacks were carried out in Bangladesh, 90% of them against women. Most of the acid victims have had sulphuric or hydrochloric acid splashed on their faces.

In June 2002, the Awami League ended its boycott of Parliament, and attended for the first time since losing in the October 2001 elections. Also in June 2002, President Badruddoza Chowdhury resigned, after being criticized for not visiting the grave of the BNP's founder, Zia-ur Rahman. That October, Prime Minister Zia called out the army to contain terrorist attacks throughout the country in the absence of adequate logistic support from the police. The army was also directed to curb crime and corruption. As many as 44 people died in custody in the drive lasting from 16 October 2002 to 9 January 2003. Zia granted immunity to the armed forces for their actions during that period, a decision that was highly criticized by the opposition Awami League.

Bangladesh's history of political violence continued in 2002, when bomb explosions in four cinemas killed 17 people and injured 300 among families celebrating the end of Ramadan. The government arrested 39 members of the Awami League in connection with the explosions.

### 13 GOVERNMENT

Bangladesh inherited the provincial government under which first the Dominion, then Republic, of Pakistan was governed, a parliamentary system based on the Westminster model with a unicameral legislature. Following this model, the constitution of December 1972 established a unitary, democratic republic, with an indirectly elected president as nominal head of state and a prime minister as head of government and chief executive. The prime minister and his government are responsible to a unicameral legislature—the National Assembly—elected no less frequently than every five years and composed of 300 members. (A constitutional amendment reserving 30 additional parliamentary seats for indirect election of women expired in May 2001.) The constitution incorporated four basic principles of state policy: nationalism, secularism, socialism, and democracy. With considerable controversy, because of its impact on the nearly 17% of the population which is non-Muslim, Islam replaced secularism as a state principle by constitutional amendment in 1977.

The constitution was amended in 1975, at the initiative of Prime Minister Mujibur Rahman, to abrogate most guarantees of civil liberties, to establish a one-party polity, and to make the presidency, rather than the prime ministership, the chief executive of the government. Mujib's assassination later that year, and the counter coup that occurred three months later resulted in a four-

year suspension of the constitution by Bangladesh's martial law ruler, Gen. Zia-ur Rahman.

Rahman himself was assassinated in 1981, and in the turmoil that ensued, General H. M. Ershad seized power. Ershad declared himself president in 1982, and held office until 1990, when increasing antigovernment protests and violence resulted in his resignation. He was later jailed on corruption charges. The interim government then conducted what most observers regard as the most free and fair elections ever held in Bangladesh, in 1991.

Among her first acts as prime minister (the first woman to hold that position in Bangladesh), Begum Khaleda Zia-ur Rahman, widow of General Rahman and the head of his Bangladesh Nationalist Party, reversed from her former position in favor of retaining a strong presidential system to restore the parliamentary system of 1972 and to return to the prime ministership the powers removed by Mujib in 1975. She led the campaign with strong Awami League support, which resulted in overwhelming parliamentary approval of a constitutional amendment. Khaleda Zia was forced to step down in March 1996, after two years of political turmoil following an opposition boycott of Parliament and elections. The opposition AL, which claimed the BNP had rigged two elections, was swept into power in the internationally monitored elections of June 1996. Sheikh Hasina Wajed then formed a coalition majority in Parliament with the Jatiya Party. By September 1996, with several victories in by-elections, the Awami League controlled an absolute majority of seats in Parliament. The government was thus unaffected by the Jatiya Party's withdrawal from the coalition in March 1997.

Parliamentary elections held 1 October 2001 resulted in a return of Hasina's bitter enemy Khaleda Zia to power. The BNP took 201 seats, the AL held 62, Jamaat-e-Islami held 18, and the Ershad faction of the Jatiya Party took 14 seats. The majority BNP government aligned with three of the smaller parties, Jamaat-e-Islami, Islami Oikya Jote, and the Naziur faction of the Jatiya Party. Elections are next to be held before October 2006. The Jamaat-e-Islami party is sympathetic to Osama bin Laden, a position that was controversial, especially after the 11 September 2001 terrorist attacks on the United States attributed to him. Zia attempted to quell domestic and international unease resulting from this position, asserting that Bangladesh would not become a fundamentalist Islamic state. However, her three coalition partners advocate replacing Bangladesh's secular laws with Islamic law, or *Shari'ah*.

## 14 POLITICAL PARTIES

From 1947 through the end of 1971, East Pakistan—now Bangladesh—was governed as a single province, one of the two wings of Pakistan. In all, there were more than 30 political parties operating in the east wing, most of them small, fractious, and with few elected members. The major parties at that time operated on the all-Pakistan level as well, and included the moderate Pakistan Muslim League (PML), a national movement that became the party of independence and the ruling party of Pakistan; the moderate socialist Awami (Freedom) League (AL), a spin-off from the Muslim League and the advocate of Bengali autonomy, with the bulk of its support in the east wing; the ultraconservative Islamic Jamaat-e-Islami (JI), grounded in Sunni Islamic orthodoxy (in Pakistan as in India) and initially opposed to the 1947 partition; and the leftist peasants and workers party, the Krishak Sramik Party (KSP) of Fazlul Haq. The Communist Party of Pakistan (CPP) was banned in 1952 and remained illegal until its east wing component became the Bangladesh Communist Party (BCP) after 1971.

The PML governed East Pakistan from 1947, but in elections in 1954, the Awami League and the Krishak Sramik, supported in a United Front by the Jamaat, ousted the Muslim League from office. After four years of political instability, however, the two

parties were displaced by the central government under "Governor's Rule," and the emergency provisions of the 1935 Government of India Act, then Pakistan's constitution. When the East Pakistan government was restored in August 1955, the KSP ruled in its own right until displaced by an AL government headed by Maulana Bhashani in 1956. Loss of Hindu support in 1958 cost the AL its majority in 1958, but "Governor's Rule" was again imposed, the provision having been carried over into the 1956 Pakistan Constitution. Martial law was imposed in Pakistan in 1965 and in elections held thereafter, under a limited political franchise, the Muslim League, now a shadow of its former self and the vehicle for General Ayub Khan's entry into elective politics, came to power briefly. Imposition of martial law in 1969 suspended political activity again until the scheduling of elections in 1970 restored political activity.

By 1970, the moderate-to-left populist Pakistan People's Party (PPP) of Zulfikar Bhutto, and the Awami League of Sheikh Mujibur Rahman, now advocating far-reaching autonomy for East Bengal, had become the dominant political forces, respectively, in West and East Pakistan. Elections confirmed this position, with the AL winning 167 of East Pakistan's 169 seats in the National Assembly and absolute control in East Pakistan. The AL was the only constituent in the Bangla Government-in-Exile in 1971, with leftist parties in support and Islamic parties in opposition. After independence, the Islamic party leaders were jailed, their parties having been banned, and in 1973, Mujib's Awami League elected 293 members of the 300-elective seats in the Assembly.

In January 1975, with his power slipping, President Mujib amended the constitution to create a one-party state, renaming his party the Bangladesh Krishak Sramik Awami League (BKSAL). After the coup later in 1975, the BKSAL was disbanded and disappeared. When Zia-ur Rahman lifted the ban on political parties in 1978, his presidential bid was supported by a newly formed Nationalist Front, dominated by his Bangladesh National Party (BNP), which won 207 of the assembly's 300 elective seats. All political activity was banned anew in March 1982 when Gen. Ershad seized power, but as he settled into power, Ershad supported the formation of the Jatiya (People's) Party, which became his vehicle for ending martial law and transforming his regime into a parliamentary government. In elections marked by violence and discredited by extensive fraud, Ershad's Jatiya Party won more than 200 of the 300 elective seats at stake. The Awami League, now under the leadership of Mujib's daughter, Sheikh Hasina Wajed, took 76 seats as the leading opposition party. Begum Khaleda Zia's BNP, heading an alliance of seven parties, boycotted the elections and gained considerable respect by this action. The BNP, the AL, and all other parties boycotted Ershad's 1988 election as well, discrediting the result that gave the Jatiya a two-thirds majority and fueling the fires of discontent that led to Ershad's resignation on 4 December 1990. Ershad was arrested on corruption charges eight days later by the interim government, convicted, and imprisoned on corruption charges.

A BNP plurality in the elections on 27 February 1991 enabled Begum Khaleda Zia to form a government with the support of 28 of the appointive members of the assembly and of the JI, which won 18 seats. The leader of the opposition is Sheikh Hasina Wajed of the Awami League (AL), which won 88 seats to claim the second ranking position in the assembly. However, Khaleda Zia resigned and Parliament was dissolved in March 1996 amid vote-rigging charges and a two-year government boycott by opposition parties. June 1996 elections brought Sheikh Hasina and the AL to a majority role in the new Parliament. The AL won 140 seats to the BNP's 116. New Prime Minister Hasina formed a cooperative government with the Jatiya Party, which won 32 seats. Although the Jatiya Party withdrew from the coalition in March 1997, the Awami League had by then acquired an

absolute majority in the legislature and continued as the party in power.

After October 2001 parliamentary elections swept Khaleda Zia's BNP to power, ousting the Awami League of Hasina Wajed, concern was raised over the political stance of one of Zia's coalition partners, the Jamaat-e-Islami party, which voices support for Osama bin Laden. Zia's three coalition partners in the government formed in 2001, Jamaat-e-Islami, Islami Oikya Jote, and the Naziur faction of the Jatiya Party, are all Islamic parties advocating a return to Islamic law, or Shari'ah. Zia, however, granted the US-led military coalition the use of Bangladesh air space and other help for its attacks on bin Laden and his al-Qaeda training camps in Afghanistan in 2001–2002, approving of the US-led war on terrorism. Hasina's Awami League supports secularism. From 1997 to 2001, the main opposition party, the BNP, hindered the work of the Jatiya Sangsad (Parliament) by repeatedly boycotting its proceedings. One such boycott, over issues ranging from restoration of a floating footbridge to Zia-ur Rahman's tomb to the dropping of criminal charges against BNP MPs, lasted for six months (August 1997–March 1998). Outside Parliament, the BNP continued to support public antigovernment demonstrations, and organized a three-day general strike (*hartal*) in November 1998 to protest alleged government repression. A month later, the opposition strengthened its position when the BNP and the Jamaat-e-Islami decided to accept Ershad and his Jatiya Party into the anti-government movement. In the spring of 2000, a four-party alliance of opposition parties (BNP, Jatiya Party, Jamaat-e-Islami, and Islami Oikyo Jote) announced it was considering plans to form an electoral coalition to oppose the Awami League in the next general elections.

## 15 LOCAL GOVERNMENT

As a unitary state, the key administrative unit in Bangladesh is the region (also referred to popularly as the district), of which there are 21 in all. For administrative convenience, regions are grouped into (and report through) six divisions (Barisal, Chittagong, Dhaka, Khulna, Rajshahi, and Sylhet), under a senior civil servant with the title of division commander (formerly commissioner).

Regions or districts are under the charge of a senior civil servant with the title of deputy commissioner; they are appointed by the national government and are vested with broad powers to collect revenues and taxes, assist in development activities, and maintain law and order. As of 1985, regions or districts were subdivided into *zilas*; in urban areas, these were further broken down into municipalities, wards, mohallas, and thanas, while in rural areas, the breakdown was into upazilas (sub-districts), unions, mouzas, and villages.

In 1997, Bangladesh reorganized its local government structure in rural areas. New legislation created a four-tier local government system: gram (village), union (collection of villages), upazila (subdistrict), and zila (district) councils. The purpose of this reorganization was to democratize government at the grass roots level in a process that, in theory at least, is nonpartisan. Elections for union parishads (councils) held in December 1997 created widespread interest, with particularly high levels of participation from women, both as candidates as well as voters. Other legislation made the upazila level the most important tier in local government, giving the upazila council power to collect revenue, prepare its own budget and hire its own employees. The restructuring of local government in Bangladesh is an ongoing process aimed at increasing popular participation in the governmental process.

## 16 JUDICIAL SYSTEM

The judicial system, modeled after the British system, is similar to that of neighboring countries. Besides the 1972 constitution, the

fundamental law of the land, there are codes of civil and criminal laws. The civil law incorporates certain Islamic and Hindu religious principles relating to marriage, inheritance, and other social matters.

The constitution provides for an impartial and independent judiciary. After the 1982 coup, the constitution was suspended, martial law courts were established throughout the country, and Lieut. Gen Ershad assumed the power to appoint judges. The constitution was reinstated in November 1986.

The judicial system consists of a Low Court and a Supreme Court, both of which hear civil and criminal cases. The Low Court consists of administrative courts (magistrate courts) and session judges. The Supreme Court also has two divisions, a High Court which hears original cases and reviews decisions of the Low Court, and an Appellate Court which hears appeals from the High Court. The upper level courts have exercised independent judgment, recently ruling against the government on a number of occasions in criminal, civil and even political trials. The trials are public. There is a right to counsel and right to appeal. There is also a system of bail. An overwhelming backlog of cases remains the major problem of the court system.

The government, with the help of the World Bank, has undertaken an ambitious project to reform the judicial system. Changes include the creation of "Legal Aid Committees" to provide assistance to the poor, as well as the establishing of Metropolitan Courts of Sessions in Dhaka and Chittagong. In March 2001, the World Bank announced the approval of a US\$30.6 million credit to assist Bangladesh in making its judicial system more efficient and accountable. A permanent Law Commission has been created to reform and update existing laws, and the government is committed to establishing a Human Rights Commission as well as an Office of the Ombudsman.

## 17 ARMED FORCES

In 2002, Bangladesh had an army of 120,000, a navy of 10,500, and an air force of 6,500. Paramilitary forces of border guards, armed police, and security guards totaled 63,200. Bangladesh is attempting to improve naval command primarily to combat piracy. The military budget in 1996–97 was \$559 million or 1.8% of GDP.

Bangladesh participated in eight UN peacekeeping missions.

## 18 INTERNATIONAL COOPERATION

Bangladesh joined the UN on 17 September 1974; it belongs to ESCAP and all the nonregional specialized agencies. A member of the Asian Development Bank, the Commonwealth of Nations, and G-77, Bangladesh participates in the nonaligned movement and in international Muslim organizations and conferences. The nation is a signatory to the Law of the Sea and a member of the WTO. In 1985, Bangladesh became one of seven constituent members of the SAARC, under which it is a signatory to the South Asia Preferential Trade Agreement. In 1997, Bangladesh signed an agreement with India on sharing water from the Ganges River.

Soon after independence, Bangladesh signed a friendship treaty with India, but the new leaders after the 1975 coup instituted a policy of equal cooperation with other neighboring countries. Pakistan recognized Bangladesh in February 1974, and the two have developed close relations, their past differences notwithstanding. Generally, Bangladesh follows a nonaligned foreign policy and in recent years has sought closer relations with other Islamic states, ASEAN, and China. Bangladesh also continues a healthy relationship with the United States, with which it has bilateral trade agreements. In 1995, the country's trade exporters association signed an agreement with the United Nations Children's Fund and the International Labour Organization (ILO) under which industry's rampant use of child labor would be eliminated.

In December 2002, Prime Minister Khaleda Zia travelled to China. One topic that was discussed during her visit was the idea of a “growth quadrangle” to promote accelerated economic exchanges between the Yunnan province of China, Myanmar, India’s Northeast, and Bangladesh. The “Kunming Initiative” was the source of this idea, an outgrowth of ASEAN.

## 19 ECONOMY

Bangladesh is situated on a river delta and has few natural resources beyond its very rich soil. With the highest population density of any country except city-states like Singapore, its cultivated land is overcrowded, undercapitalized, and dominated by subsistence farmers working uneconomically small plots. Over 60% of the country’s total land area is cultivated and about 63% of the economically active population derive their livelihood from farming. Growth rates have not been high enough to eliminate a substantial incidence of poverty, estimated at over a third of the population in 2000. Underweight children under five years old as a percent of the total dropped only 10%, from 66% to 56% between the period 1990–92 and 1998–99. Nevertheless, signs of modest improvement in the economy have been evident during the past decade, despite periodic weather disasters, to which Bangladesh remains vulnerable, and international market conditions. Agriculture still accounts for almost 30% of the GDP, although this proportion has dropped significantly from 50% in 1979/80, as services have grown from 34.4% to 52%. Industry’s share has increased only from 15.9% to 18%, according to CIA estimates.

The prospect of return to elected government in 1990 helped produce an upsurge in growth in 1989/90 of 6.6%, but in 1990/91 the combined effects of the Gulf War, domestic political disturbances, and a devastating cyclone resulted in a drop in GDP growth rate 3.4%. Pursuit of further stabilization and structural adjustment measures by the government in 1991 allowed Bangladesh to weather these crises, strengthen its revenue base, bring inflation to a record low of 1.4% in 1993, and maintain a good balance of payments position. However, political instability and a lack of continued economic reforms pushed inflation to 5.2% in 1995. Sluggish development investments, limited growth in value-added by manufacturing, and bureaucratic inefficiency in aid disbursement and project realization persisted. Still, with the election of the Awami League government calming the political waters, growth rates and export and tax revenues rebounded in 1996. GDP grew 4.7% in 1996, while inflation eased to 5.04%.

Though the indicators were promising as of 1997, the government’s delay in instituting needed reforms threatened to slow economic advances. Inflation rose to 7%, while GDP had slowed to 4%. The Awami League promoted the exploration, distribution and manufacture of oil and gas in Bangladesh in the late 1990s, but stalled on the details of contracts. As 2002 ended, exploration continued to be delayed by political squabbles over participation by foreign companies. The economy grew strongly during 1998, real growth reaching 5.4% as flooding, instead of devastating the economy, brought in some much needed foreign aid. Severe flooding also occurred in 1999, and growth slowed to 4.9%, and 3.4% in 2000. The global economic slowdown, and the after-effects of the 11 September 2001 terrorist attacks on the United States and the War on Terror in 2001, combined with continuing internal political turmoil are projected to have brought economic growth almost to a halt in Bangladesh, with an estimated growth rate of 1.6%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Bangladesh’s gross domestic product (GDP) was estimated at \$230 billion. The per capita GDP was estimated at \$1,750. The annual growth rate of GDP was estimated at 5.6%. The average inflation rate in 2000 was 5.8%. 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 30% of GDP, industry 18%, and services 52%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1.958 billion or about \$14 per capita and accounted for approximately 3.9% of GDP. Worker remittances in 2001 totaled \$1.882 billion. Foreign aid receipts amounted to about \$8 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 \$293. 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 49% of household consumption was spent on food, 18% on fuel, 8% on health care, and 9% on education. The richest 10% of the population accounted for approximately 28.6% of household consumption and the poorest 10% approximately 3.9%. It was estimated that about 36% of the population had incomes below the poverty line.

## 21 LABOR

The labor force in 1998 was estimated at approximately 64 million workers. In 1996, approximately 11% of the civilian labor force was employed in the industrial sector. Agriculture accounted for 63% of workers, and service employees were 26% of the labor force. Statistics are unreliable because of a large, informal, unreported market. The unemployment rate in 2001 was estimated at 35%.

Although 1.8 million out of the five million workers in the formal sector of the economy were unionized, this represented only a small fraction of the economically active population. Most unions are affiliated with political parties. Strikes are a common form of workers protest. There are industrial tribunals to settle labor disputes. The government can impose labor settlements through arbitration, as well as by declaring a strike illegal. Unions have become progressively more aggressive in asserting themselves, especially on the political scene.

Public sector workers’ wages are set by the National Pay and Wages Commission and may not be disputed. In the private sector, wages are set by industry, and collective bargaining rarely occurs due to high unemployment and workers’ concerns over job security. The legal workweek is 48 hours, with one day off mandated. This law is rarely enforced, especially in the garment industry. Children under the age of 14 are prohibited by law to work in factories but may work (under restricted hours) in other industries. However, such restrictions are rarely enforced and children work in every sector of the economy. In 2002, the government estimated that 6.6 million children between the ages of five and 14 years were engaged in all types of employment activities, many that were harmful to their well-being.

## 22 AGRICULTURE

Agriculture accounted for 30% of GDP and engaged 63% of the economically active population in 1996. Most of the farmers own no more than a few acres of land, and their holdings are badly fragmented. The land is fertile, but yields are low because of a lack of capital for input.

Rice dominates the production of about 60% of all cropped land in Bangladesh. Of the varieties grown, aman rice, which can be raised in inundated land and saline soil, occupies nearly 60% of the total land under rice. Aus rice, which cannot be grown in flooded fields, is raised mostly in higher areas of Bangladesh. Boro rice is grown in the winter, mainly in the swamps and marshy areas, but government-supported irrigation projects have

encouraged its extension to other areas. To meet the challenge of the food shortages, the government of Bangladesh and international aid programs introduced a high-yielding variety of rice called IRRI with considerable success. Total rice production in 1999 was 29,857,000 tons. Before November 1992, the government artificially inflated rice prices by buying over one million tons per harvest. With subsidies gone, the subsequent fall in rice prices reflected an adjustment of the market after 20 years of prices propped up by government sales and purchases.

Jute is the main cash crop of Bangladesh, which produces about one-quarter of the total jute supply of the world. Grown in most parts of the country, jute is harvested from July to September. Its strong fibers are used to produce carpets, burlap bags, mats, upholstery, and other products. Jute is also used to manufacture textiles for clothes. The combined total export of jute and jute products represents about 13–15% of Bangladesh's annual export earnings. Although Bangladesh is the world leader in exports of jute, its prominence in the economy has slipped since the 1970s. The diminished role is due to mismanagement of the nationalized jute industry, labor strikes, and a drop in the worldwide use of jute for packing. In 1999, 813,000 tons of jute were produced (24% of world production).

Although tea is the second most important agricultural export, it accounted for only 1% of export earnings. Most tea plantations are in the Sylhet Region and the Chittagong Hill Tracts. Much of the tea is consumed domestically; total production in 1999 was 51,000 tons.

The agricultural economy, though disrupted by the 1971 war, largely recovered and grew by an average 2.7% annually during the 1980s and by an annual average of 2.9% during 1990–2000. Agricultural exports accounted for 1.1% of total exports in 2001. Frequent monsoons and cyclones keep the economy vulnerable. Crop output (in tons) in 1999 included sugarcane, 6,951,000; wheat, 1,908,000; potatoes, 1,702,000; sweet potatoes, 398,000; tobacco, 37,000; and barley, 6,000. Fruit production in 1999 included 625,000 tons of bananas, 187,000 tons of mangoes, and 149,000 tons of pineapples. Coconut productions totaled 89,000 tons that year; pulses, 668,000 tons.

### 23 ANIMAL HUSBANDRY

The livestock sector has made significant progress in the 1990s, rising from 1% of GDP in 1989 to 10% in 1996. Livestock provide most of Bangladesh's draft power, rural transportation, manure, and fuel, in addition to meat, milk, eggs, hides, and skins. Buffalo milk is an important item of consumption, especially in the form of clarified butterfat. Small dairy farms (with 5–20 crossbred cows) have been growing fast in recent years. Entrepreneurs are encouraged by high liquid milk prices as well as government incentives under which the farmers receive cash to purchase dairy cows. In 1996, there were an estimated 20,750 small dairies; total milk production in 1999 was 2.1 million tons. There were about 23.4 million head of cattle, 820,000 buffaloes, 33.5 million goats, 1,110,000 sheep and 138 million chickens in 1999.

Much of the cattle stock is smuggled from India because of the reduced local availability of cows and bulls, especially during the midyear Muslim holiday of Eid Ul Azha, when cattle are sacrificed throughout the country. The cattle brought in from India may account for up to 30% of beef production. The scarcity of cattle in recent years is the result of lack of vaccines and fodder, natural disasters, and an absence of farmer incentives.

### 24 FISHING

Fish is a staple food of Bangladesh and the main source of protein. There are hundreds of varieties, including carp, salmon, pomfret, shrimp, catfish, and many local varieties. Dried fish is considered a delicacy in many parts of the country. About 1,004,164 tons of fish (67% from inland waters) were produced

in 2000. While much of the fish is consumed domestically, Bangladesh exports a sizable quantity of freshwater fish to India and other neighboring countries, and freshwater shrimp and lobster are exported to a number of countries. Exports of fish products in 2000 amounted to \$371.5 million. It is also a major source of frogs' legs, which are "farmed" commercially. Fishermen's cooperatives foster the use of modern fish-catching trawlers in the Bay of Bengal, and the government has established a fisheries corporation to stimulate production of freshwater fish for export.

### 25 FORESTRY

Bangladesh has an estimated 1,010,000 ha (2,496,000 acres) of forests, covering some 7.8% of land area. In recent years, the pressure of population has led to enormous deforestation. The government-controlled Forest Industries Development Corp. supervises the development and exploitation of forest resources. Roundwood production in 2000 came to 28.5 million cu m (1 billion cu ft). Over 98% of timber cut is used for firewood.

The main forest zone is the Sunderbans area in the southwest, consisting mostly of mangrove forests. Two principal species dominate the Sunderban forests: sundari trees, which grow about 15–18 m (50–60 ft) high and are of tough timber, and gewa trees, a softer wood used for making newsprint. Teak and bamboo are grown in the central forests.

### 26 MINING

Aside from its large identified natural gas reserves, Bangladesh had few mineral resources. The Bay of Bengal area was being explored for oil, and in some offshore areas, drilling was being conducted by international companies. Bangladesh had reserves of good-quality coal in the northern districts, but extraction has been difficult since many deposits were located at a depth of more than 900 m. Production estimates of mineral commodities in Bangladesh in 2000 included hydraulic cement, 980,000 tons; marine salt, 350,000 tons; and limestone (mined in the Sylhet and Chittagong regions), 28,000 tons.

### 27 ENERGY AND POWER

A substantial portion of Bangladesh's electrical supply is met by the country's only hydroelectric plant, at Kaptai, which has a capacity of 230 MW; the rest of the country's power is produced by burning coal, gas, and oil. Except for a few private installations on the tea plantations and a few other industries, the power and energy sector is controlled by a government-managed corporation. In 2000, net electricity generation was 15 billion kWh, of which 92.5% came from fossil fuels and 7.5% from hydropower. In the same year, consumption of electricity totaled 12.5 billion kWh. Total installed capacity at the beginning of 2001 was 3.6 million kW. As of 2002, only about 18% of the population had access to electricity. In addition, the power supply is erratic, and blackouts are a chronic problem, as are delays in new plant construction.

In July 1997, Bangladesh contracted with four international power and refining companies for four new power plants with a combined capacity of 1,600 MW. The new plants were expected to double the country's electricity to 4,000 MW over five years. A large-capacity, gas-fired 360 MW plant at Haripur became operational in April 2001, and a second, similar plant was scheduled for completion at Meghnaghat in late 2002. In 2000 the United States agreed to provide technical assistance for construction of the planned Rooppur nuclear plant.

Bangladesh's major energy resource is natural gas, with reserves estimated at anywhere from 0.4 to 1.4 trillion cu m (14 to 49 trillion cu ft) in 2002; production totaled 9.048 million cu m (319 million cu ft) in 1999. With 20 natural gas fields throughout the country, the government controls the gas industry but began accepting private exploration bids in 1991. Foreign

companies active in the country's natural gas sector include Shell and Unocal. More than four-fifths of Bangladesh's natural gas is used to produce power and fertilizer.

Bangladesh has modest oil reserves of 56.9 million barrels; output was estimated at 1,600 barrels per day in 2002. The country has one oil refinery, located at Chittagong, with a capacity of 33,000 barrels per day. In 1991 Chinese consultants confirmed the existence of 300 million tons of good quality coal at the Boropukuria coal field in northern Dajipur District.

## 28 INDUSTRY

In 1972, the year after its establishment, Bangladesh nationalized most of its industries and set up nine corporate conglomerates to oversee the state-owned enterprises (SOEs). The lack of commercial orientation inhibited investment and growth, including in the traditional jute industry, and the emerging leader, the garment industry. From the mid-1980s, the government shifted to encouraging private investment, but the industrial sector remained closely regulated. In 1991, in the post-Cold War international environment, and with the end of military rule, the government inaugurated a new Industrial Policy planning investment liberalization, the interim restructuring of several large parastatals, as well as the gradual privatization of public enterprises in all but the airways, railways, and mining sectors. Political resistance to privatization was very strong, and in the early 1990s restructuring resulted in some output decline. With a new government, in the period 1996–2001, 33 SOEs were sold by the state, but the Economist Intelligence Unit reported that these were smaller operations, and that the divestments did not significantly lessen the government's dominance of the industrial sector. The flood of 1998, which covered about two-thirds of the country, accelerated confrontational politics over the SOEs. 1999 industrial growth only reached 2.5% due to flood disruption. The public sector employs about one-third of the formal labor force and accounts for over 40% of the country's manufacturing and utility assets. 1999 industrial growth only reached 2.5% due to flood disruption. The World Bank reports that for the two fiscal years to mid-2001, losses by SOEs rose seven fold, from \$80 million to \$591 million. According to the Asian Development Bank (ADB), the garment industry, which employs 1.5 million workers, about 80% of whom are women, has been adversely affected since 2000 by US grants of quotas and duty-free access to Sub-Saharan African countries. By ADB figures, Bangladesh garment exports declined 4% to 6% June to August 2001.

In fiscal 2000/01 the leading industrial goods produced and their increases or decreases by volume included jute products, 380,00 tons, up 11%; textile yarn (produced by SOEs), 58.5 million kg, up 2%; textile fiber products (produced by SOEs), 11.7 million kg, down 0.8%; paper, 55,000 tons, up 0.7%; petroleum products, 1.5 million tons, up 15%; fertilizers, 1.8 million tons, down 5%; cement, 157 million tons, up 13%; sugar, 177,000 tons, up 43%; ready-made garments, 68.2 million, up 2.3%; mild steel rod, 142,000 tons, up 7.6%; tea, 52,725 tons, down 2.7%; leather and leather products, 22.5 million sq m, up 7.8%; and soaps and detergents, 48.3 million tons, up 1.3%. By value of export receipts, the leading manufactured exports in 2000/01 were ready-made garments (\$3.3 billion), knitwear (\$1.4 billion), frozen food (\$370 million), leather products (\$234 million) and jute products (\$222 million). Raw jute exports brought in \$66 million and tea exports earned \$24 million in 2000/01.

Recent discoveries of large natural gas reserves and plans for new power plants throughout the country were slated to boost industrial growth in 2000 and beyond. However, as of late 2002, plans for the development of natural gas resources continue to be delayed by political rows over the participation of foreign companies.

## 29 SCIENCE AND TECHNOLOGY

Bangladesh lacks the trained personnel necessary for intensive technological development. The Bangladesh University of Engineering and Technology (founded in 1962) does, however, train some technicians. Other institutions offering scientific and technical education include the Bangladesh Agricultural University in Mymensingh, the University of Chittagong, the University of Dhaka, Jahangirnagar University in Dhaka, Khulna University, and the University of Rajshahi. In 1987–97, there were only 52 scientists engaged in research and development per million people.

The Bangladesh Council for Scientific and Industrial Research and headquartered in Dhaka, operates seven research institutes, and the Bangladesh Atomic Energy Commission, Founded in 1973, and also in Dhaka, operates two others. The Geological Society of Bangladesh, founded in 1972 at Dhaka, is a government organization under the Ministry of Energy and Natural resources. Leading professional groups are the Bangladesh Academy of Sciences, the Bangladesh Medical Association, and the Zoological Society of Bangladesh, all headquartered in Dhaka.

## 30 DOMESTIC TRADE

Except for jute, tea, paper, garments, frozen shrimp, and a few other items, most of the commodities produced in Bangladesh are consumed inside the country. Normally, the farmers or fishermen sell to the wholesalers and they in turn sell to distributors and retailers. Industrial commodities for domestic consumption are distributed through the same procedure. The middlemen in the distribution process have often benefited from excessive profits, creating hardships for farmers and consumers. To meet this situation, the government has introduced mechanisms by means of which farmers can sell directly to cooperative agencies acting on behalf of buyers. The government has also set up fair-price shops for consumers. Much domestic trade in rural areas is conducted in the marketplaces, where farmers sell directly to consumers. About 60% of the domestic development budget comes from foreign aid.

Foreign products are imported by large commercial concerns located in the capital city of Dhaka or in the ports, and are then distributed through wholesalers and retailers. Normal business hours are between 9 AM and 5 PM, Sunday through Thursday, but most retail stores are open until 8 PM. Many private businesses are open on Saturday as well. Limited advertising is done through the newspapers, movie houses, handbills, and television.

## 31 FOREIGN TRADE

Since independence, Bangladesh has had a strongly negative trade balance. Imports steadily ran more than double the value of exports between 1971 and 1991. With a surge in export growth since 1991, the trade deficit has improved; imports exceeded exports by about 56% in 1996, and by 62% in 1997 as opposed to more than 120% in 1989/90. Trade relations with the United States remain excellent. As a result of successful export promotion measures undertaken by the government during the 1980s, exports of ready-made-garments and knitwear are now Bangladesh's leading earner of foreign exchange.

The garment and textile industry garners the highest percentage of Bangladesh's export commodities, including undergarments, women's and men's outerwear, leather, hats, and yarn (85%). At the mouth of the Ganges, fish and crustaceans are also harvested and exported (5.6%).



In 1998 Bangladesh's imports were distributed among the following categories:

Consumer goods	4.6%
Food	14.3%
Fuels	7.4%
Industrial supplies	56.4%
Machinery	13.1%
Transportation	4.0%
Other	0.2%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	1,993	303	1,690
Germany	449	182	267
France	448	97	351
United Kingdom	371	256	115
Italy	274	76	198
Netherlands	227	73	154
Canada	153	114	39
Japan	124	479	-355
China (inc. Hong Kong)	106	1,125	-1,109
Australia	33	194	-161
India	10	1,041	-1,031

### 32 BALANCE OF PAYMENTS

The continuing trade deficit has been offset in small part by private transfers, mainly from earnings of workers in the Middle East, but large amounts of foreign aid and heavy short-term borrowing are needed to handle the balance-of-payments problem. In FY 1991/92, the infusion of \$1.59 billion in foreign aid and transfers helped lessen a negative balance of payments. In 1995, the trade deficit widened and there was a stagnation in the growth of remittances from overseas workers. The rising trade deficit, coupled with a decline in international aid disbursements due to political turmoil, caused foreign exchange reserves to drop from a peak of \$3.4 billion in April 1995 to \$2.1 billion by the end of 1996, and \$1.7 billion by 1999.

During the 1990s, the manufacturing sector revived, due to export growth led by garments and knitwear. Bilateral quota systems with developed country markets, whose quota regimes limited the exports of many competing Asian suppliers, were a factor in the growth of garment exports starting from 1994. Other factors contributing to the success of the garment industry in Bangladesh include few governmental regulations; the provision of customs-bonded warehouses for imported cloth; and financial arrangements allowing foreign banks to finance raw materials inventories. Nevertheless, Bangladesh must diversify its export base in order to improve its trade imbalance—garments and knitwear continue to account for 75% of export earnings. Leather and shrimp are potential growth sectors. The elimination of the quota system on textiles and clothing under the WTO was due to expire in 2005, and Bangladesh will need to improve the performance and quality of its garment export sector.

By the end of July 2001, the country's foreign exchange reserves stood at \$1.05 billion, which was enough to pay for about a month of imports, the lowest level in a decade. Since the end of the 1990s, the level of worker remittances has increased at an average rate of 12.6%.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Bangladesh's exports was \$6.6 billion while imports totaled \$8.7 billion resulting in a trade deficit of \$2.1 billion. The International Monetary Fund (IMF) reports that in 2001 Bangladesh had exports of goods totaling \$6.09 billion and imports totaling \$8.13 billion. The services credit totaled \$751 million and debit \$1.47 billion.

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

<b>Current Account</b>	<b>-490</b>
Balance on goods	-2,049
Balance on services	-722
Balance on income	-287
Current transfers	2,568
<b>Capital Account</b>	<b>235</b>
<b>Financial Account</b>	<b>262</b>
Direct investment abroad	...
Direct investment in Bangladesh	78
Portfolio investment assets	...
Portfolio investment liabilities	-4
Other investment assets	-434
Other investment liabilities	621
<b>Net Errors and Omissions</b>	<b>-151</b>
<b>Reserves and Related Items</b>	<b>144</b>

### 33 BANKING AND SECURITIES

Central banking is conducted by the Bangladesh Bank, which has its head office in Dhaka. It is responsible for the circulation of money, supervision of commercial banks, and control of credit and foreign exchange. There are four commercial government-owned banks, 6 development financial institutions, 27 domestic private banks, and 12 foreign bank branches operating in Bangladesh. The four major banks are all state-owned: Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$4.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$16.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6%.

Trade on the Dhaka Stock Exchange (DSE) was dormant until 1993. The fourth quarter of 1996 was marked by feverish activity on the DSE, and on the smaller Chittagong Stock Exchange (CSE). In September, October, and the first two weeks of November, records were broken daily as share prices soared. Prices soon bore little relation to the current profitability or future prospects of the companies concerned. Up to 300,000 first-time buyers joined in the bonanza, driving the limited number of stocks traded-210-to a peak on 16 November, 1996, when the all-share index reached 3,627, up from around 1,000 in June. By 4 November, market capitalization had reached an unsustainable \$6 billion, equivalent to some 20% of the country's GDP. The government began to cool down the market by selling off state-owned enterprises. In late December, the central bank announced that T2 billion (\$47 million) would be available to the state-run Investment Corporation of Bangladesh to buy shares and give some support to the market, but the market crashed despite these preventative measures. In 1997, 37 stock brokers were charged with market manipulation in the DSE boom and crash of 1996. In 2001, market capitalization reached \$1.15 billion, although very little foreign portfolio investment was recorded.

### 34 INSURANCE

The insurance business was nationalized in 1972, creating a government-controlled insurance corporation. The Ministry of Finance and Planning is the insurance regulatory body. Premiums are mainly in commercial or industrial fields. Life insurance remains limited to city dwellers and middle-class professionals. In 2001, there was \$129 million in life insurance premiums written.

### 35 PUBLIC FINANCE

The fiscal year runs from June to July. In 1993, Bangladesh successfully completed a three-year IMF structural adjustment program. This program resulted in growth in the money supply of 11% in 1993, 15% in 1994, and 16% in 1995. In addition, government spending was curbed by a decline in subsidies to money-losing parastatals and the value added tax (VAT) continued to generate higher than predicted revenues for the government, with collections up 18% over 1994. In 1996, the government reported that exports were up, GDP grew by 4.4%, and tax revenues climbed 9% to \$3.1 billion. Encouraged by the good news, the government proposed a 1997 budget that would reduce domestic taxes, further cut import duties, and provide special incentives for foreign investors. The government stressed, however, a continuing need for foreign aid. International aid disbursements in 1996 totaled \$1.5 billion, down from \$1.7 billion in 1995. Almost half of government revenues come from foreign aid. In 1999, primarily because of flooding, foreign aid increased by 19% from \$1.3 billion in 1998. The global economic downturn of the first few years of the new millennium has had devastating effects on Bangladesh's economy. Exports had been growing 18% a year prior to the recession; they are now growing only 8% a year. The World Bank and the IMF predict that GDP will grow approximately 4.5% in the next 5 years, well short of the 7–8% they believe it needs to lift itself out of poverty.

The US Central Intelligence Agency (CIA) estimates that in 1999/2000 Bangladesh's central government took in revenues of approximately \$4.9 billion and had expenditures of \$6.8 billion. Overall, the government registered a deficit of approximately \$1.9 billion. External debt totaled \$17 billion.

### 36 TAXATION

The principal direct taxes are personal income taxes and corporate income taxes, and a VAT of 15% levied on all-important consumer goods. The top income tax rate is 25% and the top corporate rate is 40%. Publicly traded companies registered in Bangladesh are charged a lower rate of 35%. Effective 1 July 2002, the VAT rate on computer hardware and software was reduced to 7.5%, and certain agricultural equipment and electricity supplied to the agricultural sector was exempted from VAT altogether. VAT on the transfer of land is also to be abolished. Essential agricultural implements and irrigation pumps had previously been excluded from certain taxes.

### 37 CUSTOMS AND DUTIES

Although it has made significant reforms in the past few years, Bangladesh remains one of the most restrictive trade regimes in Asia and gets a major portion of its current revenue from import duties and excise taxes. In 1999, tariff reform was accelerated by the compression of customs duty rates into a range of 0–37.5%, including a variety of products from raw materials to finished products. There is also a 2.5% infrastructure development surcharge on nearly all imports. Customs procedures are lengthy and burdensome and Bangladesh's list of prohibited imports is lengthy.

There are three export processing zones; one in Chittagong, one in Dakha, and one in Gazipur; three more are under construction in Comilla, Issardi, and Mongla. Bangladesh is a member of the South Asia Preferential Trade Agreement (SAPTA).

### 38 FOREIGN INVESTMENT

Bangladesh nationalized most industries in 1972 and set up nine corporations to oversee them. In the mid-1980s, the Bangladesh government began relaxing its policy toward foreign investment

and announced a program granting tax holidays to new foreign investors. In 1989 the Directorate of Industries was renamed the Board of Industries (BOI) and delegated the task of providing various forms of assistance to new investors. More recently, government industrial policies have liberalized conditions for foreign investment much further—100% foreign equity is now allowed on investments anywhere in the country, not simply in export processing zones, and many regulations discriminating between foreign and domestic investors have been abolished. Reflecting the more favorable policy environment, foreign direct investment (FDI) first flowed into the country in significant amounts, albeit still haltingly, in the late 1980s. A peak was reached in 1995/96, when the annual inflow of FDI was estimated at \$900 million. As of 1999, the total estimated foreign investment in Bangladesh was \$1.5 billion. The four largest investor nations were the US, Malaysia, Japan, and the UK. Total US investment was estimated to be \$700 million in 1999, up from \$25 million in 1997, due to massive investment in gas exploration and production, and power generation. The annual rate has slowed considerably from the mid-1990s, however.

For 2000/01 FDI was estimated at \$177.8 million, less than one-fifth the inflow in 1995/96. Expanding the flow of foreign investment to the country is likely to hinge upon further proof of government commitment to facilitating private business activity. The US State Department reports that “business people consider [Bangladesh] customs to be among the worst, a thoroughly corrupt organization in which official routinely exert their power to influence the tariff value of imports and to expedite or delay import and export processing at the ports.” Foreign investments are by law accorded national treatment, and 100% foreign ownership is allowed in most sectors. However, the IMF reports that most foreign investments require official approval. Most of the barriers to foreign investment in Bangladesh are informal, but formidable: bureaucratic corruption and inertia, poor infrastructure, labor militancy, and political unrest.

### 39 ECONOMIC DEVELOPMENT

The major objectives of planned development have been increased national income, rural development, self-sufficiency in food, and increased industrial production. However, progress in achieving development goals has been slow. Political turmoil and untamed natural hazards of cyclone and flooding have combined with external economic shocks to persistently derail economic plans. Bangladesh's first five-year plan (1973–78) aimed to increase economic growth by 5.5% annually, but actual growth averaged only 4% per year. A special two-year plan (1978–80), stressing rural development, also fell short of its projected growth target, as did the second five-year plan (1980–85), which targeted 7.2% annual growth. The third five-year plan (1985–90) had a 5.4% annual growth target though only 3.8% was actually achieved.

In 1991, with the reinstatement of elected government, a new economic program was initiated that included financial sector reform and liberalization measures to encourage investment, government revenue improvement efforts (realized largely through implementation of a value-added-tax), and tight monetary policy. Income transfer measures, Food-for-Work, and other programs were also implemented to help protect the poorest segments of the population from the transitional effects of structural reform. Political turmoil from 1994 to 1996 helped reduce the final average annual growth rate under the Fourth Five Year Plan (1990–1995) to 4.15% (short of the 5% target), albeit the best performance so far under an economic plan. The 1996 elections brought renewed economic stability. Exports grew 14% in 1996, and GDP growth for 1996/97 rose to 5.5% as the economy rebounded. Floods during 1998 and 1999 caused some economic slowdown but this was balanced by unprecedented growth in gas

production and electricity production sectors. Average annual GDP growth under the Fourth Five-Year Plan rose to 5.3%.

Fiscal year 2000 was marked by a sharp increase in monetary expansion due to unprecedented borrowing from the banking sector (though the sale of treasury bills) to cover budget shortfalls due. Domestic borrowing increased primarily due to the reduced availability of external concessional financing. Historically, Bangladesh has received foreign aid disbursements equivalent to about 6% of GDP, have lately declined to amount equaling 3–4% GDP. Moreover, according to the IMF, much of the domestic borrowing was being used to cover recurrent expenses such as wage and salary increases. The revenue to GDP ratio rose in 2001 from 8.5% to 9.4%, but this improvement was more than offset by expenditure to GDP ratios of 14.4% and 14.1%, creating budget deficits amounting to 5.9% and 5%, in 2000 and 2001 respectively. The drain on foreign reserves from domestic borrowing contributed to reducing the foreign exchange cover for imports to imprudent levels of two months in 2000 and one-and-a-half months in 2001.

For 2001/02, however, the IMF predicted a sharp decline to around 3.5% due to the global economic slowdown and the contractions after the terrorist attacks of 11 September 2001 on the United States.

#### 40 SOCIAL DEVELOPMENT

A system of pensions exists for public employees only, and there is a limited work injury and unemployment insurance system. These programs are financed entirely by employer contributions and cover only small percentage of the population. Sickness and maternity benefits are also offered on a limited basis.

While women have and exercise full voting rights, they receive unequal treatment in many areas, including education, employment, and family matters such as divorce and inheritance. While legislation has been passed in recent years to protect women, discrimination and spousal abuse continues to be a problem. The Cruelty to Women Law of 1983 and the Women Repression Law of 1995 have not been rigorously enforced. There are continued reports of women being disfigured by having acid flung at their faces—usually by rejected suitors.

Because of widespread poverty children are forced to work at a very young age, and are frequently abused. More than half of all children suffer from malnutrition. There is evidence that children are being sold to the Middle East, India, Pakistan, and Southeast Asia for their labor. The government is collaborating with nongovernmental organizations to put an end to this practice. Some estimates place the number of child laborers as high as 10 million, including—according to a UNICEF report—some 10,000 child prostitutes.

Although the government is secular, discrimination against minority Hindus has led in recent years to violence and conflict. The government's human rights record is poor, with many fundamental human rights restricted. Abuses include extrajudicial killings, torture, and violent suppression of demonstrators, and prison conditions are inhumane.

#### 41 HEALTH

Malaria, tuberculosis, and other serious diseases remain endemic and public health problems are aggravated by widespread malnutrition and periodic natural disasters. Between 1995 and 2000, the prevalence of malnutrition in children under five years old decreased from 84% to 55%. In 2000, 97% of the population had access to safe drinking water and 53% had adequate sanitation, up from 78% and 35%, respectively, in 1980. Because the lack of vitamin A plays a role in blindness and malnutrition, in 1993 the government of Bangladesh introduced a national system to distribute vitamin A capsules to children (with about 25% having been served at that time).

In 1990, there were 8,566 doctors (15 per 1,000 people), 2,630 pharmacists, 523 dentists, and 5,074 nurses. In the mid-1990s, only 45% of the population had access to health services. As of 1999, there were an estimated 0.2 physicians and 0.3 hospital beds per 1,000 people.

Average life expectancy at birth in 2000 was 61 years. The government pays the majority of vaccination costs, which has helped increase participation. As of 1999, estimated immunization rates for children under one year of age were 71% for measles and 72% for diphtheria, tetanus, and pertussis. The infant mortality rate was 60 per 1,000 live births in 2000. It was estimated that 54% of married women (ages 15–49) used contraception as of 1999. Maternal deaths were estimated at 440 per 100,000 live births in 1998, down from 850 in 1990.

A new strain of cholera was reported late in 1992. Only seven new cases of AIDS were reported in 1995. As of 1999 an estimated 13,000 people were living with HIV/AIDS and the prevalence rate was 0.02 for every 100 adults.

#### 42 HOUSING

Housing has long been a vital concern in Bangladesh. The government maintains an urban housing program but does not have any housing development program for villages. The House Building Finance Corp. lends money for private as well as public housing. Dhaka and Chittagong urban development is conducted under the guidance of town planning authorities, which develops land and allocates it for private dwelling and commercial purposes.

As of the 1991 census, the average household contained 5.5 people. About 79% of all dwellings were made of straw or bamboo walls, usually with roofs of the same material. About 28.5% of all dwellings were made with mud brick walls, 19.9% were built with wood sheets, and 62.6% had cement walls.

Since 1996, the government has launched a number of programs focusing on poverty and homelessness. The Asrayon (“shelter”) program provided group housing and agricultural plots on government land for about 50,000 families (2002est.). The Gahrey Phera (“return home”) program helps displaced rural families return to their villages. The Grihayan Tahabil (Housing Fund) was also established through the Bangladesh Bank as a way to provide loans to non-government organization who endeavor to build shelters for the urban poor.

#### 43 EDUCATION

For the year 2000, adult illiteracy rates were estimated at 59.2% (males, 48.3%; females, 70.5%). The government, as a matter of policy, is attempting to broaden the educational base to eradicate mass illiteracy. Primary education, extending over five years, is free and compulsory, although rural girls are exempted from this law. Secondary education covers six grades, divided into three two-year cycles. Most educational institutions are supported by the government either fully or partially. The language of instruction is Bangla.

In the mid-1990s, the number of primary schools was estimated at 46,000 with 190,000 teachers and 12,000,000 students. At the secondary level, there were 131,000 teachers and 3,600,000 students. There are seven universities, 10 medical colleges, and 10 teacher-training colleges. Research institutions include the Bangla Academy (which sponsors translations of scientific and literary works into Bangla), the Asiatic Society, and the National Institute of Public Administration's Institute of Law and International Affairs. In the mid-1990s, there were 23,000 teachers and 434,000 students in all higher-level institutions.

As of 2000, an estimated 70% of primary-school-age children attended school, while only 18% of those eligible were enrolled in secondary school. In 1996, approximately 2.9% of the GDP was allocated to education.

#### 44 LIBRARIES AND MUSEUMS

The largest library in Bangladesh is Dhaka University Library (1921; with 5.5 million volumes). It houses the university's collection and that of the former Public Library of East Pakistan. The National Library holds 200,000 volumes, and Dhaka's Central Public Library (1958) has over one million volumes. The Bangla Academy maintains an excellent research collection, as does the Bangladesh Institute of Development studies in Dhaka (100,000 volumes).

The Dhaka Museum contains a variety of sculptures and paintings from the Buddhist, Hindu, and Muslim periods. Both it and the Balda Museum have outstanding collections of Bengali art and ancient artifacts. Also in Dhaka are a science and technology museum and the National Museum of Bangladesh. The Ram Mala Museum at Comilla houses 7th-century archaeological finds, and the museum in Rajshahi contains many artifacts from the ruins of an 8th-century Buddhist monastery excavated nearby, as well as significant relics from the Kushon, Gupta, Pala, and Sena periods of Bengali history. There is a gallery of contemporary paintings as well as an ethnological museum in Chittagong.

#### 45 MEDIA

All postal and telecommunications services are controlled by the government. There were 500,000 mainline telephones in use in 2000, with an additional 283,000 cellular phones in use throughout the country. In 1999, Bangladesh had 12 AM and 12 FM radio broadcasting stations and 15 television stations, which were accessible to about 90% of the population. Color television was introduced in 1980. In 2000, there were 49 radios and 7 television sets for every 1,000 people. The same year, there were ten Internet service providers serving about 30,000 subscribers.

The major Bengali daily newspapers (with 2002 circulations), all in Dhaka, are *Ittefaq* (200,000), *Dainik Inqilab* (180,000), *Sangbad* (71,050), *Dainik Bangla* (65,000), and *Dainik Sangram* (45,000). The largest English dailies, also in Dhaka, are the *Bangladesh Observer* (43,000), *Bangladesh Times* (35,000), and *Daily Star* (30,000).

The government is said, with some exceptions, to generally respect freedom of speech and press. On occasion, the government has censored criticism of Islam.

#### 46 ORGANIZATIONS

Various associations for the Muslim, Hindu, Christian, and Buddhist communities have long been active in organizing religious festivals and social activities. Every town also has several cultural groups. The Bangladesh Women's Association is active in social life. There are about 39 national youth organizations and about two hundred regional and local youth organizations. These generally hold membership in one of two coordinating bodies: the Bangladesh Youth Council (BYC) and the National Federation of Youth Organizations in Bangladesh. There are about seven major student unions including the Bangladesh federation of University Women. A scouting organization is also present.

There are also many philanthropic organizations and workers' associations, including the Bangladesh Teachers' Federation, which was founded in 1990. The Red Crescent Society and Greenpeace have representative organizations within the country. The Bangladesh Medical Studies and Research Institute and the Bangladesh Academy of Sciences promote research and education in a number of medical and scientific fields.

#### 47 TOURISM, TRAVEL, AND RECREATION

The main tourist attractions include the old Mughal capital at Dhaka, nearby Sonargaon with its ancient architecture, the

Buddhist cultural center of Mainamati, and the beach resort of Cox's Bazar. At the end of the 1980s tourism declined due to political unrest. Throughout the 1990s, however, figures have slowly increased. In 1997, 171,961 foreign visitors arrived. But in 2000, 199,211 tourists visited the country, nearly half from South Asia. As of 2000 year, there were 4,550 hotel rooms with 9,789 beds with a 49% occupancy rate. Tourism revenues totaled \$50 million.

In 2001, the US government estimated the daily cost of staying in Dhaka at \$174. Expenses in other areas can be much lower.

#### 48 FAMOUS BANGLADESHIS

Many Bengalis distinguished themselves in political life before the creation of Bangladesh. A. K. Fazlul Huq (d.1962), the former premier of Bengal Province, moved the Lahore Resolution of 1940, calling for an independent Pakistan, and dominated Bengali politics for half a century. H. S. Suhrawardy (1895–1964), another former premier of Bengal, served for a time as premier of Pakistan and was a mentor to the next generation of Bengali leaders. Sheikh Mujibur Rahman (1920–75), a leader of the Awami League, led the successful fight for the independence of East Pakistan and was the first premier of Bangladesh (1972–75). Maj. Gen. Zia-ur Rahman (1936–81) was military ruler of the country from 1976 until his assassination.

#### 49 DEPENDENCIES

Bangladesh has no territories or colonies.

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# BHUTAN

Kingdom of Bhutan

*Druk-Yul*

**CAPITAL:** Thimphu (Tashi Chho Dzong)

**FLAG:** The flag is divided diagonally into an orange-yellow field above and a crimson field below. In the center is a wingless white Chinese dragon.

**ANTHEM:** *Gyelpo Tenjur*, beginning “In the Thunder Dragon Kingdom, adorned with sandalwood.”

**MONETARY UNIT:** The ngultrum (N) is a paper currency of 100 chetrum. There are coins of 5, 10, 25, and 50 chetrum and 1 ngultrum, and notes of 1, 5, 10, and 100 ngultrum. The ngultrum is at par with the Indian rupee (R), which also circulates freely. N1 = \$0.0213 (or \$1 = N46.97) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional units are still in common use.

**HOLIDAYS:** King’s Birthday, 11–13 November; National Day, 17 December. Movable Buddhist holidays and festivals are observed.

**TIME:** 5:30 PM = noon GMT.

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

Bhutan, a landlocked country in the Himalaya mountain range, has an area of 47,000 sq km (18,147 sq mi), extending 306 km (190 mi) E–W and 145 km (90 mi) N–S. Comparatively, the area occupied by Bhutan is slightly more than half the size of the state of Indiana. It is bordered on the E, S, and W by India and on the N and NW by China, with a total boundary length of 1,075 km (668 mi). The capital city of Bhutan, Thimphu, is located in the west central part of the country.

## <sup>2</sup>TOPOGRAPHY

Bhutan is a mountainous country of extremely high altitudes and irregular, often precipitous terrain, which may vary in elevation by several thousand feet within a short distance. Elevation generally increases from south to north. The mountains are a series of parallel north-south ranges. The loftiest peaks, found in the Himalayan chain that stretches along the northern border, include Kula Kangri (7,554 m/24,783 ft) and Chomo Lhari (7,314 m/23,997 ft). Great spurs extend south from the main chain along the eastern and western borders. In the rest of the country are mainly ranges of steep hills separated by narrow valleys. Bhutan is drained by many rivers flowing south between these ranges and for the most part ultimately emptying into the Brahmaputra River in India.

## <sup>3</sup>CLIMATE

Because of the irregular terrain, the climate varies greatly from place to place. In the outer foothills adjoining the Indian plains, rainfall ranges from about 150 cm to 300 cm (60–120 in) a year; the forests are hot and steaming in the rainy season, while the higher hills are cold, wet, and misty. Violent Himalayan thunderstorms gave rise to Bhutan’s Dzongkha name, Druk-Yul, which translates as “Land of the Thunder Dragon.” Rainfall is moderate in the central belt of flat valleys (which have an elevation of 1,100–3,000 m/3,500–10,000 ft). The uplands and high valleys (above 3,700 m/12,000 ft) are relatively dry. There is less rainfall in eastern Bhutan. In general, the mountainous areas

are cold most of the year. Temperatures there average 4°C (39°F) in January and 17°C (63°F) in July.

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

Dense jungle growth is characteristic at altitudes below 1,500 m (5,000 ft). Above that height the mountain slopes are covered with forest, including beech, ash, birch, maple, cypress, and yew. At 2,400–2,700 m (8,000–9,000 ft) are forests of oak and rhododendron. Above this level, firs and pines grow to the timber line. Primulas, poppies (including the rare blue variety), magnolias, and orchids abound.

The relative abundance of wild animals is attributed to the Buddhist reluctance to take life. In the lower parts of southern Bhutan, mammals include the cheetah, goral, sambar, bear, and rhinoceros; in the higher regions are snow deer, musk deer, and barking deer. Game birds include pheasants, partridges, pigeons, and quail.

## <sup>5</sup>ENVIRONMENT

The most significant environmental problems in Bhutan were soil erosion and water pollution. The erosion of the soil occurs because 50% of the land in Bhutan is situated on mountainous slopes which are subject to landslides during the monsoon season. Other contributing factors are overcutting of timber, road construction, and the building of irrigation channels. The nation has 95 cubic kilometers of renewable water resources, but only 86% of all city dwellers and 60% of people in rural areas have pure drinking water.

The Manas Game Sanctuary is located along the banks of the Manas River in southeastern Bhutan. Altogether, 21.2% of Bhutan’s total land areas was protected as of 2001. In the same year, there were 20 species of endangered mammals including the tiger, snow leopard, Asian elephant, and wild yak, and 14 bird species were threatened with extinction, as well as five threatened species of plants and one endangered reptile.



LOCATION: 26°42' to 28°21' N; 88°45' to 92°8' E. BOUNDARY LENGTHS: India, 605 kilometers (378 miles); China, 470 kilometers (290 miles).

## 6 POPULATION

The population of Bhutan in 2003 was estimated by the United Nations at 2,257,000, which placed it as number 139 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 39% of the population under 15 years of age. There were 102 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.96%, with the projected population for the year 2015 at 3,043,000. The population density in 2002 was 20 per sq km (51 per sq mi).

It was estimated by the Population Reference Bureau that 7% of the population lived in urban areas in 2001. The capital city, Thimphu, had a population of 28,000 in that year. Phuntsholing had more than 10,000 people. According to the United Nations, the urban population growth rate for 2000–2005 was 6.0%.

Some 93% of the population was rural in 2001. The laboring population is not gathered into towns but lives in the countryside in the vicinity of fortresses called *dzongs*. A *dzong*, the official center of a region or district, often houses substantial numbers of Buddhist monks. Many place names incorporate the word *dzong*, which means “castle-monastery.”

## 7 MIGRATION

Bhutan opposes immigration and forbids the entry of new settlers from Nepal. Since 1959, when about 4,000 Tibetan refugees entered Bhutan, the border with Tibet has been closed to immigration. By 1980, most of the refugees had become citizens

of Bhutan; the rest migrated to India. The border between Bhutan and India is open, and citizens of Bhutan are free to live and work in India. The net migration rate for 2000 was -0.5 per 1000 population, or a loss of approximately 1,000 people. The total number of migrants residing in Bhutan was 10,000 in that year.

## 8 ETHNIC GROUPS

Bhutanese are mainly of Tibetan stock, and are also known as Buotias; they account for approximately 50% of the population. The Ngalop (also called Bhote) are people of Tibetan origin who live in northern and western Bhutan; the Sharchop inhabit the eastern regions and also have ethnic affinities with the people of China's Tibetan region. Aboriginal or indigenous tribal peoples live in villages scattered throughout Bhutan and account for approximately 15% of the population. The remaining peoples are Nepalese settlers (about 35% of the population), living mostly in the south. Some 85,000 were expelled to Nepal in 1992–93, and about 5,000–15,000 more moved to India.

## 9 LANGUAGES

Four main languages are spoken in Bhutan. The official language is Dzongkha, a Tibetan dialect spoken mainly by Ngalop in the northern and western parts of the country. Bumthangkha, an aboriginal language, is spoken in central Bhutan, while Sharchopkha is spoken in eastern Bhutan. Both of these are used in primary schools in areas where their speakers predominate. The Nepalese largely retain their own language, Nepali.

## 10 RELIGIONS

About 75% of the Bhutanese practice Buddhism and about 25% practice Indian- and Nepalese-influenced Hinduism. While the law provides for religious freedom, the Drukpa sect of the Kagyupa School, a branch of Mahayana Buddhism, is the state religion, and the law prohibits religious conversions. The Drukpa (people of the dragon) subsect of the Kagyupa sect of Buddhism, introduced from Tibet in the 12th century, dominates the collective life of the Bhutanese through a large clerical body estimated at more than 6,000 lamas or monks, centered in 8 major monasteries (*dzongs*) and 200 smaller shrines (*gompas*) scattered throughout the land. This sect incorporates both the ideology of the classical Buddhist scriptures and the indigenous pre-Buddhist animistic beliefs called Bon. Nigmapa school of Mahayana Buddhism is also practiced, primarily in the eastern regions.

Among Hindus, the Shaivite, Vaishnavite, Shakta, Ghanapath, Pauranic, and Vedic schools are all represented.

There are still a few Bon priests and followers in the country and there are small numbers of Christians.

## 11 TRANSPORTATION

Traditionally, Bhutan's communications have been mostly with Tibet, through several strategic mountain passes. Most travelers continue to journey on foot or mounted on hardy ponies bred to withstand great altitudes and steep slopes. Goods are transported by porters or on pack animals. Many of the rivers are still crossed by native cantilever bridges of excellent construction.

Prior to the 1961–66 development plan, there were no surfaced roads in Bhutan. Since then, a network of roads and suspension bridges has been built by India. In 2002, there were about 3,285 km (2,041 mi) of roads, including about 1,994 km (1,239 mi) of surfaced roads. Of the 186 suspension bridges projected in the 1981–87 economic plan, 102 were completed by 1985. There is bus service linking Paro Dzong and Tashi Gang Dzong with Indian border towns. In 2001 there were 2 airports, only 1 of which had a paved runway. The national air carrier, Druk Airlines, began operations in 1983 with regular flights between Calcutta and Paro Dzong, the site of Bhutan's main airfield. In

2001, 35,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Little is known of the history of Bhutan before the 17th century. Buddhism was originally introduced from India in the 8th century, although the Buddhism of today's Bhutan is very much Tibetan in character. The forebears of the Bhotes (or Bhotias) came from Tibet, probably in the 9th century, when Tibetans invaded the area and met little resistance from the indigenous Tephu tribe. In the middle of the fifteenth century, Shabdung Ngawang Nangyal, a Tibetan lama exercising temporal as well as spiritual power, united the country and built most of the fortified villages (*dzongs*). His successors in power established a dual system, separating the temporal ruler (*Desi* or *deb raja*) and the spiritual ruler (*Je Khempo* or *dharma raja*).

The first recorded contact with the West occurred in 1772, when the British East India Company repelled a Bhanesese invasion of the princely state of Cooch Behar in India; they concluded a peace treaty two years later. During the 18th century and most of the 19th, British efforts to open trade with Bhutan proved futile, with the Bhanesese frequently attacking the relatively level areas of Assam and Bengal along their southern border. In 1865, the British finally defeated the Bhanesese, and Bhutan formally accepted a British subsidy of ₹50,000 a year, which was dependent upon their keeping the peace.

With British approval, Ugyen Dorji Wangchuk became the first hereditary king in 1907, replacing the temporal ruler. In 1910, the Punakha Treaty was concluded between the British Indian Government and Bhutan, under which British India agreed explicitly not to interfere in Bhanesese internal affairs, while Bhutan accepted British "guidance" in handling external matters—a role independent India assumed after 1947. A formal Indo-Bhanesese accord concluded in 1949 reaffirmed and amplified the earlier Punakha Treaty. Besides increasing Bhutan's annual subsidy to ₹500,000 and returning to Bhutan 83 square kilometers (32 square miles) of territory around Dewangiri (wrested by the British in 1865), it made India responsible for Bhutan's defense and strategic communications, committing India to avoid interfering in Bhutan's affairs and affirming Bhutan's agreement to be "guided by the advice of" India in foreign affairs.

In 1959, China published maps of the Himalayan frontier with South Asia that showed as Chinese part of the territory claimed by Bhutan; Chinese representatives also asserted that Bhutan belonged to a greater Tibet. In response, Indian prime minister Jawaharlal Nehru warned that an attack on Bhutan would be deemed an act of war against India. Fighting between India and China in neighboring border regions in the fall of 1962 did not violate Bhutan's borders, although survivors from Indian army units decimated east of Bhutan straggled back to India through Bhutan.

In April 1964, the long-time prime minister, Jigme Dorji, was assassinated, revealing fissures among the ruling elite. The plotters who were caught were executed, including the deputy commander of the army; others fled to Nepal. In the 1960s, Bhutan's advance toward modernization and the end of its insularity were accelerated by economic plans prepared and underwritten by India.

Relations with Nepal have grown difficult in recent years, due to a dispute with Nepal concerning Bhanesese refugees of Nepalese descent. The mostly Hindu "Nepali Bhanesese," comprising approximately a third of Bhutan's population, were granted citizenship in 1958. However, Bhutan changed its citizenship laws in the late 1980s, making the Nepali Bhanesese illegal immigrants. In 1990, the Bhanesese government expelled 100,000 Nepali Bhanesese, who fled to refugee camps in eastern Nepal. In 1993, Bhutan and Nepal established a Joint Ministerial

Level Committee (JMLC) to address the issue of ethnic Nepalese refugees.

Nepalese activism, spearheaded by the Bhutan People's Party based in Nepal, continued through the early 1990s. It resulted in violence from both sides, and brought charges of violations of human rights against Bhutan's security forces. In 1996, "peace marches" of refugees from Nepal into Bhutan were met by force, and the marchers were deported by the Bhanesese police. The following year, the National Assembly adopted a resolution (later discarded) that prohibited family members of ethnic Nepalese refugees from holding jobs in the government or armed forces. The government also began resettling Buddhist Bhanesese from other regions of the country on land vacated by the refugees. In 1998, Foreign Minister Jigme Thinley took office with a mandate to settle the refugee issue. Although Bhutan and Nepal originally agreed in principle that the refugees be divided into four categories (1) bonafide Bhanesese; (2) Bhanesese emigres; (3) non-Bhanesese; and (4) Bhanesese who have committed crimes in Bhutan, the question of what to do with the more than 100,000 refugees living in the camps in Nepal remains unresolved. Talks between Bhutan and Nepal are ongoing.

At the Tenth JMLC round of talks held in December 2000, negotiators created a Joint Verification Team (JVT) to interview and verify the status of the Bhanesese refugees, but by the Eleventh round of JMLC talks held in August 2001, the verification process was moving at a rate of only 10 families per day. In addition to the JMLC talks, Foreign Secretary Level talks (FSLT) were held in November 2001, at which differences between the Nepali and Bhanesese positions on the issue of categorization of the refugees were clarified: Nepal proposed to reduce the four categories to two (Bhanesese and non-Bhanesese), a plan that was rejected by Bhutan. However, the two governments agreed that year to verify the identities of the refugees by family lineage, but the Bhanesese government did not give any indication of when these families may return to Bhutan. Further talks were held in August 2002.

There are also tensions between Bhutan and India's northeastern state of Assam. Two separatist groups from Assam—the United Liberation Front of Asom (ULFA) and the National Democratic Front of Bodoland (NDFB)—maintain well-entrenched bases in Bhutan. The separatist Kamatapur Liberation Organization (KLO) from West Bengal state is there as well. Bhutan refrained from taking direct action against the Indian separatists for fear of retaliatory attacks on its nationals, but in late December 2002, the Bhanesese government announced it would use military might to remove the separatists from bases within its borders. The Assam government has blamed Bhutan for the rise in militancy in the region, and welcomed the government's decision to launch a military response.

Reforms introduced by King Jigme Singye Wangchuck in June 1998 mark a milestone in Bhutan's political and constitutional history. Continuing his efforts toward modernization, the king issued a royal edict relinquishing some of the monarch's traditional prerogatives and giving a greater role in Bhutan's administration to elected government officials.

On 3 December 2002, the King of Bhutan issued a first draft of a constitution for Bhutan. The draft will be discussed in the country's 20 districts before it is presented to the National Assembly when it convenes in June 2003.

Bhutan in June 1999 took major steps toward modernization, legalizing television and the Internet. The first Internet cafe opened in Thimphu in 2000.

## 13 GOVERNMENT

Bhutan is an absolute monarchy, ruled by a hereditary king, the "Druk Gyalpo," who governs with the aid of a Royal Cabinet and a National Assembly (the Tshogdu). In the past, the king appointed members to a Royal Advisory Council and to a



Council of Ministers. Following the political reforms of 1998, however, these two councils were combined to form the cabinet. This body consists of six ministers elected by the National Assembly, six advisors also elected by the National Assembly, a member nominated by the king, and two representatives of the clergy.

The unicameral National Assembly (established in 1953), known as the Tshogdu, consists of 154 members. Of these, 37 are appointed by the king to represent government and other secular interests; 105 are elected to three-year terms by groups of village headmen, who are, in turn, elected by a one-family, one-vote system; and the remaining 12 are chosen by the lamas acting in concert. The Tshogdu meets twice a year at Thimphu, the capital (previously known as Punakha). Candidates file their own nominations. The assembly is charged with addressing the king on matters of national importance. It also enacts laws and approves senior government appointments. A simple majority is needed to pass a measure and is conducted by secret ballot. While the king may not veto legislation, he may return bills for further consideration; the king generally has enough influence to persuade the assembly to approve legislation he considers important or to withdraw proposals which he opposes. Since 1969, it has become a more active, independent influence on government policy through its power to overrule bills proposed by the king or his advisors.

During the 1960s, King Jigme Dorji Wangchuk (r.1952–72) was a prime mover behind political and administrative changes that took the country in the direction of constitutional monarchy. When Crown Prince Jigme Singye Wangchuk assumed the throne upon his father's death in July 1972 and was crowned in June 1974, he continued his father's policy of sharing authority with the Council of Ministers and the National Assembly. In 1998, the king announced ambitious political changes that moved Bhutan further down the road towards a true constitutional monarchy. He relinquished his role as Head of Government and assigned full executive powers to a cabinet consisting of ministers and advisors to be elected by the National Assembly (in reality, the National Assembly chooses from a list of nominees proposed by the king, who also retains authority relating to security issues). The Council of Ministers, a subgroup of the cabinet, elects one of its members on a rotational basis to serve a one-year term as chairman. It is this official who is the Head of Government. As part of his reforms, King Jigme Singye Wangchuk also introduced legislation by which any monarch would have to abdicate in favor of his hereditary successor if the National Assembly supported a vote of no-confidence against him by a two-thirds majority. And in December 2002, the king issued a draft for a first constitution for Bhutan, which is to be debated in the country's 20 districts before it is considered by the National Assembly in June 2003.

## 14 POLITICAL PARTIES

The government discourages political parties and none operate legally. Freedom of speech, the press, assembly, association and workers' rights are restricted by the government, and judicial processes are based on tradition rather than written criminal or civil procedure codes.

An opposition group known as the Bhutan State Congress (BSC) composed mainly of ethnic Nepalese has long maintained its headquarters in nearby India; other such groups, all very small and headquartered in either India or in Nepal, include the People's Forum for Democratic Rights and the Students' Union of Bhutan. A militant opposition group, operating under the banner of the Bhutan People's Party (BPP) and affiliated with the Bhutan National Democratic Party (BNDP) in Nepal, was founded in 1990 in Siliguri, India. It claims to represent the interests of the thousands of ethnic Nepalese who have migrated (or been forced to flee) from farming areas of southern Bhutan in recent years.

Allegedly supported by the Communist Parties of India (CPI) and Nepal (CPN), the BPP was responsible for demonstrations in September 1990 in Bhutan; it has charged the Bhutan government with human rights violations and "ethnic cleansing" in the area.

BPP tactics in 1991 and 1992 included hit-and-run terrorist raids into Bhutan, burning schools, census and land records, and health facilities and attacking ethnic Bhutanese (as well as loyal Nepalese) in national dress; BPP activists also organized camps for the tens of thousands of refugees in southern Nepal. In 1992, Bhutan government policy toward the terrorist attacks stiffened, with arrests and long prison sentences meted out to captured BPP activists. The conflict continued throughout the 1990s. On 9 September 2001, BPP leader R. K. Budhathoki was assassinated, weakening the BPP. The BPP in October 2002 requested that Bhutanese authorities dispense justice in the case.

## 15 LOCAL GOVERNMENT

The country is divided into four regions—East, Central, West, and South—each administered by a governor appointed by the king. As of 2002 there were 20 districts (*dzongkhas*) under the supervision of district commissioners (*dzongdas*), who are appointed by the Royal Civil Service Commission and are responsible for law and order. Districts are further subdivided into blocks (*gewog*), of which there are 202 in the country. As part of the king's efforts to encourage decentralization in decision-making, in 1991 the government began a program to establish Block Development Committees. This project allowed people to plan and implement development projects within their respective blocks (in the 1980s, a development plan was organized for the districts). The success of the district and block development programs encouraged citizens to form other types of associations, such as school management boards, village health development committees, and associations for different agricultural products, such as apples and potatoes, for example.

## 16 JUDICIAL SYSTEM

The legal system is based on English common law and Indian law. Local headmen and magistrates (*thrimpon*) hear cases in the first instance. Appeals may be made to an six-member High Court (also known as the Royal Court of Justice), established in 1968. From the High Court, a final appeal may be made to the king. Judges are appointed for life by the king. There is no written constitution, although a draft for one was submitted in December 2002. Criminal matters and most civil matters are resolved by application of the 17th century legal code as revised in 1957. Precedence is not used in the delivery of justice. Questions of family law are governed by traditional Buddhist or Hindu law. Minor offenses are adjudicated by village headmen. Criminal defendants have no right to court appointment of an attorney and no right to a jury trial. Under the 1979 Police Act, Police need a warrant to arrest a person and must bring the detainees before a court within 24 hours of arrest. Bhutan does not accept the compulsory jurisdiction of the International Court of Justice.

In keeping with the policies of modernization being pursued in Bhutan, the government formed a special committee in 1998 to review the country's laws and propose changes in the legal system. One of these changes saw the creation, in April 2000, of a Department of Legal Affairs to investigate and prosecute criminal and civil cases against civil servants. This may well turn out to be the forerunner of a fully fledged Attorney-General's Office or a Department of Justice. In 2001, a Civil and Criminal Procedure Code was enacted by the National Assembly, as a way of strengthening and reforming the legal system.

## 17 ARMED FORCES

The armed forces consist of the Royal Bhutan Army, the National Militia, the Royal Bhutan Police, body guards, and a paramilitary

force. The army is trained and equipped by India. In 2001 military expenditures were \$9.3 million, or 1.9% GDP.

## 18 INTERNATIONAL COOPERATION

Bhutan joined the Colombo Plan organization in 1962 and became a UN member on 21 September 1971; it participates in ESCAP, FAO, IBRD, ICAO, IDA, IFAD, IMF, ITU, UNESCO, UNIDO, UPU, and WHO. Bhutan also belongs to the Asian Development Bank and G-77 and is a signatory to the Law of the Sea. In addition, Bhutan is a member of the nonaligned movement and was a founding member of the South Asian Association for Regional Cooperation (SAARC). In 1978, its office in New Delhi was accorded the status of an embassy. Bhutan maintains full diplomatic relations with all of the South Asia countries, as well as several countries in the Middle East and Europe.

## 19 ECONOMY

Isolated Bhutan has one of the smallest, and poorest, economies in the world. Much of the population functions outside the cash economy; about 93% of the labor force lives by subsistence farming or herding. Agriculture and forestry together make up 45% of the country's GDP. Although the government has relaxed the emphasis on maintaining food self-sufficiency that characterized its most isolationist decade, 1988 to 1998, the country supplies most of its food needs through the production of grains, fruits, some meat, and yak butter. Services, with tourist-related business comprising a major share, account for a further 35% of GDP. By the mid-1970s, tourism had surpassed the sale of postage stamps as the chief source of Bhutan's limited foreign exchange revenue. In turn, since the completion the first mega hydroelectric project in 1988, power exports have become the leading source of a more comfortable hard currency position.

A series of five-year plans, initiated in 1961 and financed primarily by India, have begun to improve transportation, modernize agriculture, and develop hydroelectric power. Realization of several hydroelectric and industrial projects during the 1980s helped to increase industry's share of the GDP, and inflated overall GDP growth rates to 7.3% annually during 1985–90. A slowdown in government project investment in the early 1990s caused GDP growth to stabilize at an average of around 3%, although an upturn in economic activity in 1995 brought the rate back up to 6%, and 7.3% in 1998. In 1999, real GDP growth dropped to 5.5%, but recovered to around the long-term average of 6% in 2000 and 2001. Bhutan's extensive forests, mineral resources, and swift-running rivers offer great potential for future development, although preservation of the country's environment continues to rank high among the government's priorities. Concern over the environment has also led the government to impose a strict set of regulations on tourists, although they are no longer subject to strict quotas that in the past held tourists to 2,500 to 4,000 a year, and banned individual tourism altogether. In 2002, tourism had climbed to about 7,000 visitors a year.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Bhutan's gross domestic product (GDP) was estimated at \$2.5 billion. The per capita GDP was estimated at \$1,200. The annual growth rate of GDP was estimated at 6%. The average inflation rate in 2000 was 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 45% of GDP, industry 20%, and services 35%. Aid receipts amounted to about \$71 per capita and accounted for approximately 11% of the gross national income (GNI).

## 21 LABOR

About 93% of the economically active population consisted of agricultural workers in 2002, with 5% employed in services and the remaining 2% in industry and commerce. There is a severe shortage of skilled labor. The salaried labor market is predominantly in government service. Most of the industrial sector consists of home-based handicrafts and privately owned small or medium-scale factories producing consumer goods.

As of 2002, Bhutan had a government-set minimum wage of approximately \$2.50 per day, which provides a decent standard of living for a family. The government also mandates overtime pay for work in excess of eight hours per day. Laborers are also entitled to one day's paid leave for every six work days, if the worker is retained on at least a monthly basis. The minimum work age is 18 years for citizens (20 years for non-citizens) although UNICEF has found that children as young as 11 are employed. Trade unions are illegal, and workers do not have the right to strike. Labor regulations do not provide a worker with the right to remove themselves from hazardous conditions, although the government provides free medical care to workers.

## 22 AGRICULTURE

Only about 3.4% of the land area, comprising 160,000 hectares (395,000 acres), was used for seasonal and permanent crop production in 1998. In 2002, agriculture contributed about 45% to GDP, and engaged 93% of the economically active population. Nonetheless, Bhutan's near self-sufficiency in food permitted quantities of some crops to be exported to India, in exchange for cereals. Since there is little level space available for cultivation, fields are generally terraced. Stone aqueducts carry irrigation water. The low-lying areas raise a surplus of rice; in 1999, output of paddy rice was estimated at 50,000 tons. Other crops include wheat, maize, millet, buckwheat, barley, potatoes, sugarcane, cardamom, walnuts, and oranges. Part of the crop yield is used in making beer and chong, a potent liquor distilled from rice, barley, and millet. Paper is made from the daphne plant, which grows wildly. Walnuts, citrus fruits, apples, and apricots are grown in government orchards.

Agricultural holdings are restricted to 12 hectares (30 acres) per family; almost all farm families own their own land. Since the mid-1960s, the government has established demonstration farms, distributed fruit plants, and implemented irrigation schemes. High-yielding varieties of rice, wheat, and corn seeds have been introduced. Under the 1987–92 economic plan, farming cooperatives were introduced and apiculture was promoted.

## 23 ANIMAL HUSBANDRY

Yaks, cattle, and some sheep graze in the lowland forests and, during the summer, in the uplands and high valleys. In 1999 there were an estimated 435,000 head of cattle, 75,000 hogs, 59,000 sheep, and 42,000 goats. Draft animals that year included 30,000 horses, 18,000 donkeys, and 10,000 mules. Meat production in 1999 was estimated at 8,000 tons, 75% of it beef. Wool has been in short supply since its importation from Tibet was stopped by the government in 1960; sheep breeding is therefore encouraged. In 1999, one ton of hides was produced.

## 24 FISHING

The government has established a hatchery and started a program of stocking Bhutan's rivers and lakes with brown trout. Freshwater fish are found in most waterways. The total catch was 330 tons in 2000.

## 25 FORESTRY

About 64% of Bhutan's land area was covered with forests in 2000. Although lack of transportation facilities has hampered forest development, timber has become a major export.

Roundwood production in 2000 totaled 4.2 million cu m (148 million cu ft), about 99% of which was used for fuel.

## 26 MINING

The mineral industry of Bhutan was small and dominated by the production of cement, coal, dolomite, and limestone, and was insignificant to its economy, which grew by 6% in 2001. Estimated production totals, in tons, for 2001 were: limestone, 280,000; dolomite, 265,000; cement, 160,000; gypsum, 55,000; quartzite, 53,000; ferrosilicon, 16,000; and talc, 3,800. Marble and slate were quarried for use as a dimensional stone; production totals in 2001 were estimated at 4,000 and 9,000 sq m, respectively. Dolomite has constituted an important export to India since 1960, and almost all the ferrosilicon output is exported to India. For centuries, silver and iron have been mined in Bhutan for handicrafts. Deposits of beryl, copper, graphite, lead, mica, pyrite, tin, tungsten, and zinc have also been found. A graphite-processing plant was established at Paro Dzong.

## 27 ENERGY AND POWER

In 2000, 55% of Bhutan's commercial energy consumption (which totaled 380.7 million kWh) was provided by hydroelectric power, 24% from petroleum, and 21% from coal. Electric power was introduced in Bhutan in 1962; by the mid-1980s, six hydroelectric and six diesel power stations were in operation. The 336-MW Chukha hydroelectric project, in southwestern Bhutan, was completed in early 1987 and is connected to the Indian power grid; the project was funded by India, which is to receive all the electrical output not used by Bhutan. As of 2002 the major hydroelectric project under construction was the 1,020 MW Tala plant, slated for completion in 2004/05. In 2001, Bhutan's net installed capacity was 425,000 kW; in 2000 production totaled 1,900 million kWh, of which 99% was hydroelectric. Bhutan suffers frequent power outages and shortages.

## 28 INDUSTRY

Craft manufacture is the predominant industrial occupation, and homespun textiles—woven and embroidered cottons, wools, and silks—are the most important products. Other Bhutanese handicrafts include daphne paper; swords; wooden bowls; leather objects; copper, iron, brass, bronze, and silver work; wood carvings; and split-cane basketry.

The economy in the 21st century has become increasingly dominated by the hydroelectric sector, and the building of new power projects has led to double-digit growth in the transport and construction sectors, including a number of local cement operations. The country's first cement plant was completed in the border town of Penden in 1982 by India, to which the bulk of its output is exported. Bhutan's first mega power plant, the 336-MW Chukha hydroelectricity project (CHEP), came on line in early 1987, having been first agreed to as a turn-key operation with India in 1961, on what has become a standard arrangement of 60% grant and 40% concessional loan. 70% of the power generated by the CHEP is exported to India, and by 1996 export receipts were sufficient to produce a trade surplus with India. Nevertheless, it is estimated that only about 3% of Bhutan's hydroelectric potential has yet been exploited, and even less of its industrializing potential. The decade following the opening of the Chukha facility, 1988–1998, saw more government resistance to industrialization of Bhutan than support, and progress has been slow. In 1988, in conjunction with the country's sixth economic plan (1987–1992), the Bhutan Development Finance Corporation was established to promote small- and medium-scale businesses. A second cement plant was established in Nanglam by the late 1980s, and another, in 1995, in the same town, by an Indian investor, along with several manufacturing plants producing carbide, particleboard and other products destined for the Indian market, but Bhutan industrialization was hobbled by stridently

anti-foreign, anti-modernity policies. In fact, security problems in Nanglam have caused to government to close down the Project Office there and shift to a temporary office in Gelepu. There has been some renewed opening in the late 1990s, but by the end of 2002 only one rather small power plant and part of a second have been brought on line: the India-sponsored 60 MW Kurichhu hydroelectric project, and the first, smaller phase of the Austria-sponsored 65 MW Basochu hydropower project. The truly major, and fully India-funded, 1020 MW Tala Hydro-electric Project (THEP) was begun in 1998 with targets for completion in 2004 and 2005. Plans for the even more ambitious Sunkosh Multipurpose Project (SMP), with installed capacity envisioned at 4,060 MW, were developed by the India's Central Water Commission in 1997. It is expected to take 10 years to complete. Two other projects that have been submitted to government of India for consideration are a 360 MW plant at Mangdue Chu and a 870 MW plant at Puna Tsangchhu.

There are a large number of small, privately owned sawmills throughout Bhutan since most of its domestic energy actually comes from firewood, not electricity. A sawmill with a furniture-making unit has been established in Thimphu. Industrial estates have been set up at Phuntsholing and Geylegphug, and the Ninth Five Year Plan (2002 to 2006) calls for five to be located around the country.

Besides cement, there is a narrow range of other manufactures exported—ferro-alloys, calcium carbide, processed foods and particleboard—which tend to rely on energy- and capital-intensive methods and expatriate labor. Bhutan Ferro Alloys Ltd., which makes ferrosilicon and exports to India and Japan, began operations at a new plant at Pasakha in April 1995. Calcium carbide is produced at several private dolomite-mining operations, as well a private and joint public-private limestone mining operations. Manufacturing as a share of GDP has risen from 3.2% in 1980 to 8.2% in 1990 to 12% in 1998 to an estimated 20% in 2001. It is likely that with the emphases in the Ninth Five Year Plan on commercial and private sector development as means of achieving economic self-sufficiency and generating employment, this share will continue to grow.

## 29 SCIENCE AND TECHNOLOGY

Royal Bhutan Polytechnic College, founded in 1974 in Deothang, offers courses in civil, mechanical and electrical engineering. The Royal Technical Institute in Phuntsholing offers courses in electronics, mechanics, and motor mechanics. Sherubtse Degree College, founded in 1983 in Tashigang, offers science courses.

## 30 DOMESTIC TRADE

Over 90% of the population is employed in agriculture. Homemade handicrafts, cement, and food processing are the primary industries. Retail sales are carried out mainly in small, local bazaars. Bartering is common at the local level, with grains, butter, and cloth being the principal commodities of exchange, although Indian and Bhutanese currencies are increasingly being employed. Indian traders sell imported articles and buy a number of handicraft items for export to India. The Ninth Five Year Plan (2002–2006) for the first time envisions plans for each of Bhutan's 201 localities or geogs. Through this approach, the government hopes to enhance rural connectivity and economic activity while putting a check on rural to urban movement.

## 31 FOREIGN TRADE

After the 1960 government ban on trade with Tibet, Bhutan's external sector became almost exclusively oriented toward trade with India. With the completion in 2002 of the second hydroelectric power project financed by India—built largely with Indian migrant labor and designed to deliver the majority of its power outputs to India—India's dominance in terms of exports has remained over 90%. Import sources, however, have become

increasingly diversified, with non-Indian sources—particularly First World industrialized countries—accounting for nearly 30%, up from about 20% in 1998. The increased diversity in import sources corresponds roughly to the increased diversity in foreign aid sources, which in the 1960s had been virtually monopolized by India. For 2000 the US Central Intelligence Agency (CIA) identified the main export destinations as India (94%) and Bangladesh, and the main import sources as India (77%), Japan, United, Germany, and the United States.

Bhutan's merchandise trade balance has been persistently negative, although for three years, 1996, 1997, and 1998, the country registered a surplus in its trade with India due to the combination of power exports and the lack, until 1998, of major construction projects. With the start of construction on the Tala Hydroelectric Project (THEP) in 1998, scheduled to be online with a 1020 MW capacity in 2004 or 2005, Bhutan has incurred large and increasing trade deficits. As a percent of GDP, Bhutan's trade deficit has increased from a low of 4.3% in 1996 to ratios of 14.2% in 1999, 16.7% in 2000, and 22.6% in 2001. The 2001 trade deficit amounted to \$81.7 million, according to the IMF, 56% of which (\$45.7 million) was attributable to a trade deficit with India. Bhutan's principal exports include electric power (to India), cement, cardamom, timber, gypsum, dolomite, coal, handicrafts, cement, fruit, vegetables, precious stones, spices, ferrosilicon, calcium carbide, particle board, some preserved food, alcoholic beverages, yak tails for fly whisks, and yak hair. The country's principal imports are fuel and lubricants, grain, machinery and parts, vehicles, fabrics, and rice.

### **32 BALANCE OF PAYMENTS**

Bhutan's current account deficit was at a low of 11.1% of GDP in 1998, the year construction began on the Tala hydroelectric project. This ratio more than doubled the next year, to 24.1% of GDP in 1999, reflecting increased capital goods imports and rising factor service payments for the project dependent on foreign labor and expertise. The proportional deficit on the current account ranged even higher in 2000 and 2001, to 28.4% of GDP and 26.8% of GDP, respectively, and was expected to be yet higher for 2002. However, foreign aid increases, also largely attributable to the Tala project, which is financed by India, have, to date, more than compensated for the current account deficit. In 2000/01, according to the IMF, the current account deficit was at \$126.2 million while compensating grants came to \$129.1 million, including \$100.1 million (77.5% of total grants) from India. As a percent of GDP the overall balance of payments surplus in 2000/01 was 5.9%, a decrease from more comfortable ratios of 8.2% in 1999/2000, 11.0% in 1998/99, and 11.7% in 1997/98. The decline in the overall payments surplus reflects not just increased imports of goods and services, but also an increased share of concessional loans over grants in foreign aid received.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Bhutan's exports was \$154 million while imports totaled \$196 million resulting in a trade deficit of \$42 million.

### **33 BANKING AND SECURITIES**

Bhutan's central bank is the Royal Monetary Authority, established in 1982 to manage currency and foreign exchange. There are in addition four other major financial institutions. The Bank of Bhutan was founded in 1968 as a joint venture with India. A second commercial bank, the Bhutan National Bank (BNB), was established in 1997 as a public corporation, though the government retains 51%. The BNB's operations are computerized and it is connected with major foreign banks, unlike the Bank of Bhutan, which still uses hand-written ledgers. The Bhutan Development Finance Corporation (BDFC) was set up in 1988 to finance small and medium enterprises. The small

Royal Bhutan Stock Exchange (RBSE) currently trades about 13 companies.

In 2001 there was a reduction of interest rates in all lending categories and on large deposits. There are no ATMs, and banking hours are mostly restricted to 9 AM to 1 PM Monday to Friday, and 9 AM to 11 AM on Saturday, but there are some "evening banks" in Thimphu and Phuentsholing with hours between 1 to 5 PM Wednesday and Sunday, 1 to 3 PM on Monday, and closed on Tuesday. Gross foreign currency reserves reached \$300 million in 2001. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$107.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$227.1 million.

### **34 INSURANCE**

The Royal Insurance Corporation of Bhutan (RICB), founded by royal charter in January 1975, is the only insurance company in the kingdom and covers all classes of insurance. The government owns 39.25% while private and public shareholders own 60.25%. The RICB's 2000 shareholder are comprised primarily of civil servants and members of the business community. The Royal Insurance Corporation of Bhutan has reinsurance arrangements with ten companies in India, Japan, Thailand, Hong Kong, Nepal, Bangladesh, and Germany.

The use of insurance, however, is limited. In 2001, there were 15,259 policy holders of general insurance, and only 4,650 holders of life insurance, the latter figure up from 114 in 1975. Within the terms of its own business, the RICB has had a steady growth in profit and assets over its 27 years of operation, but it also manages, under a Memorandum of Understanding (MOU) with the government, the rural house insurance scheme which it operates as a social welfare program in accordance with the terms of the MOU. In 2001, the rural house insurance scheme covered 31,172 permanent rural houses and 21,407 semi-permanent houses for fire, earthquake, flood, landslide, and storm, all of which are common events in Bhutan. The scheme was revised in January 2000 to give compensation of N100,000 (about \$2,150) for a permanent house with an annual premium of N150 (about \$3.23), and N40,000 (about \$860) for a semi-permanent house with an annual premium of N60 (about \$1.30). Claims have increased considerably since the revision. In 1999, under the previously less generous scheme, claims were N2.425 million (about \$52,000) against premiums of N1.77 million (about \$25,312), where as by 2001 claims had risen to N11.292 million (about \$243,000) against premiums of N5.98 million (about \$128,000). The ratio of claims to premiums has somewhat improved, from 2 to 1 in 1999 to 1.89 to 1 in 2001.

### **35 PUBLIC FINANCE**

The largest category of annual current expenditure is public works, which presumably includes the maintenance of monasteries. Most of the annual budget deficit is covered by grants from India and from the UN and other international agencies. By 1996, Bhutan had achieved self-sufficiency in current expenses, thanks primarily to revenues from the Chhukha power project, Bhutan's largest hydro-electric plant.

The US Central Intelligence Agency (CIA) estimates that in 1995/1996 Bhutan's central government took in revenues of approximately \$146 million and had expenditures of \$152 million. Overall, the government registered a deficit of approximately \$6 million. External debt totaled \$245 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%	146
Tax revenue	27.3%	40
Non-tax revenue	36.1%	53
Capital revenue	0.5%	1
Grants	36.2%	53
EXPENDITURES	100.0%	152
General public services	21.9%	33
Public order and safety	5.0%	8
Education	15.6%	24
Health	10.2%	15
Housing and community amenities	7.7%	12
Recreation, cultural, and religious affairs	1.8%	3
Economic affairs and services	37.1%	56
Interest payments	0.9%	1

### 36 TAXATION

The corporate income tax (CIT), excises taxes, taxes on real estate income, and non-tax revenues (particularly power tariffs on the export of electricity to India) were the main sources of domestic revenue in 2001. The power tariff, at Bhutan's insistence, was doubled to R1 (about \$0.028) per unit on 1 April 1997, and then raised 50% to R1.5 (about \$0.034) per unit 1 July 1999. The business income tax (BIT) accounted for only about 5% of revenue in 2001 because of the weakness of the private sector. In January 2003, the government introduced a personal income tax (PIT) for individuals with taxable incomes above N100,000. The PIT is expected to raise only N110 million (or about 1%) of the 2001–2003 budget of N11,184.6, but at this stage the government considers the social benefits of the PIT—reducing income disparities and instilling a sense of responsibility—to be more important than its revenue contribution. In July 2002, the government launched the Pension and Provident Fund Plan, a scheme converting the social security system to a pension plan to provide retirement benefits for civil servants, corporate employees, and the armed forces.

External assistance continues to provide the bulk of Bhutan's development budget, but since 1996 domestic revenues have covered current expenses. In 2001, domestic revenues also covered a portion of the capital budget. A major goal of the Ninth Five Year Plan (2002–2006) is the increase of domestic revenue through taxes. In 2002–2003, it is projected that for the first time tax revenues will exceed non-tax revenues. Tax revenues are expected to come to 12% of GDP and non-tax revenues to 8% of GDP.

### 37 CUSTOMS AND DUTIES

Under the Indo-Bhutanese Treaty of 1949, goods pass from one country to another without payment of customs duties. Bhutan currently has observer status with the World Trade Organization (WTO). In 1999, the WTO accepted Bhutan's application for accession. However, as of December 2002, Bhutan had not provided the WTO with the required memorandum on its foreign trade regime, the next step in the process of negotiating an accession. In 2002, the government identified a site in Phuentsholing for the construction of a dry port to expedite export and import formalities and revised some of its more restrictive import rules.

### 38 FOREIGN INVESTMENT

Foreign investment comes primarily from India, and is carried out within the context of Bhutan's special relationship with India. Bhutan's first two Five Year Plans in the 1960s were 100% financed by India. Since then, Bhutan has relied on an increasingly diverse set of countries—Australia, Austria, Finland, Denmark, Japan, the Netherlands, Norway, Canada, Switzerland, Germany, Italy, New Zealand, Italy, New Zealand, Sweden, South Korea, South Korea, United Kingdom and United States—and multilateral institutions—the UN, the World Bank and the Asian Development Bank (ADB)—to provide capital on a concessional basis, though India remains the dominant source. On private foreign investment, the government's stance is that foreign direct investment (FDI) it is becoming increasingly necessary to meet the country's employment and self-sufficiency goals. FDI is now permitted in certain sectors, including tourism where, in 2002, negotiations were being pursued for joint ventures with international hotel and resort chains. Concerns to preserve Bhutan's cultural heritage, its natural environment, and to prevent the emergence of large income inequalities can be expected to take precedence over any opening to foreign investment.

### 39 ECONOMIC DEVELOPMENT

Bhutan is on the UN's list of least developed countries (LDC) and its government has been shown no particular eagerness to graduate from this status. In 2002, it embarked on its Ninth Five-Year Plan (FYP) seeking to maximize what the King termed "gross national happiness," not gross national income. Bhutan's leaders have adopted a very cautious approach to economic development, putting preservation of the traditional Buddhist culture and the country's spectacular natural environment well ahead of ambitions for economic modernization. Bhutan is a country where immigration is forbidden and tourism is controlled under a strict regime to guard against corrupting influences. The greatest restraint imposed on development by the government in its non-recognition of the majority of the residents in Bhutan as citizens. While the government claims, by its own calculation of the UN's Human Development Index (HDI), counting only the country's 600,000 or so ethnic Bhutanese, to have achieved a medium income status (above 0.5 on the HDI), the UN, counting all the residents, continues to list Bhutan in the low-income group. The subsistence sector remains at over 90%. There are no railroads, helicopters, domestic airlines, or ATMs, and, though hydroelectric power is Bhutan's main export, 70% of the population do not have electricity and depend on firewood for energy (72% of the country is forested, and by law 60% must remain so). Under current plans, full rural electrification is not scheduled to be accomplished until 2020. The shortage of skilled labor and technical expertise is chronic and severe. In 2001, 40% of the government's budget was supplied by foreign grants, and the government, in turn, comprised 40% of the small cash economy.

Nevertheless, since the political reforms of 1998, when King Wangchuk relinquished some of his absolute power, there have been successive years of robust growth with moderate inflation, and the start of a number of potentially far-reaching structural reforms: the creation of a government department on telecommunications (access to foreign television and the internet was restored in 1999 after having been banned in 1990), the abolition of the state monopoly in petroleum distribution, the privatization of public enterprises in banking, trade and cement manufacture as well as the creation of several joint ventures, and the transformation, as of July 2002, of the government power department into Bhutan Power Corporation (BPC), currently the largest corporation in the country.

The driving force behind most economic growth in Bhutan has been India's support for the construction of hydroelectric projects to service its own market, with spinoffs in transportation improvements, the construction industry and energy-intensive manufactures. Since the power projects mainly relied on migrant Indian labor and expertise, the impact on Bhutan's labor force capabilities has been limited.

Under Bhutan's first four development plans, 1961 to 1981, considerable improvements were made in agriculture, irrigation, and forestry, as well as electric power generation and road transportation. Until 1974 when the first tourists were allowed into the country, the main source of foreign exchange was exotic postage stamps bought by collectors. The plans were funded 90% to 100% by India, which contributed more than \$197 million over the 20-year period.

Under the fifth economic plan (1981–87), priorities were agriculture and animal husbandry (14% of outlays) and public works (13%). The centerpiece was the construction of the 336 MW Chhukha hydroelectric project (CHEP), completed in 1987 and connected to the Indian power grid. Investments under the Fifth Plan were about 31% financed by India and 30% by UN agencies and other foreign sources. GDP grew briskly in this period, 6% to 8% annually according to the plan, but progress was hampered by the lack of local skills. The Sixth Fiscal Year Plan (1987–91), accordingly, emphasized the improvements in education and personnel training to develop the skills needed for trade and industry, and to reduce dependence on Indian expertise and labor. Other goals included expansion of the tax base to decrease the dependence on foreign grants, encouragement of the private sector to provide local employment, and decentralization to the district (*dzongkha*) level to check excessive rural to urban migration. GDP was targeted to grow at 6.9% a year, with priority given to industry, trade and commerce (20%) and power (13%). The Bhutan Development Finance Corporation (BDFC) was established in 1988 to promote small and medium state industries in various sectors of the economy.

However, by the end of 1988, the King and other traditional leaders had become thoroughly alarmed at the impacts the surge in economic activity was having in Bhutan, as well as in neighboring Nepal, where they witnessed its monarchy being pressured into democratic reforms. Bhutan was closed to individual tourists, who were accused of having desecrated holy places, defiled and stolen sacred objects and having a corrupting influence on the population. In 1989, the King issued edicts imposing a strict Buddhist dress and social code (the Driglam Manzha) and the Dzongka language of northern Bhutan. Bhutanese Hindus of Nepalese origin, just over half of the population, rejected these impositions in the name of a pro-democracy movement. In April 1990, the King ordered fines and imprisonment to enforce the Driglam Manzha, and banned foreign television networks. In late 1990, Hindu residents were essentially declared stateless as the government asserted that only ethnic Bhutanese were rightful citizens. By 1991, an estimated 50,000 ethnic Nepalese had fled the country, including several senior officials, high-level bureaucrats, and other trained personnel.

In the seventh economic plan (1992–1997) the government had shifted goals had to priorities on preserving national identity; preserving the pristine environment; economics, especially food, self-sufficiency; indigenous human resource development, and encouragement of privatization in manufacturing and services. Specific environmental objectives included the promotion of sustainable agriculture through soil erosion control as well as the setting aside of 20% of the country's land area as nature reserves and other areas protected from commercial timber extraction. The personnel problem soon became acute as many as 70,000 ethnic Nepalese joined the exodus to UN-supported refugee camps just outside the country, including the bulk of Bhutan's

technocrats, civil servants, police and army personnel. In 1993, GDP growth plummeted to 3%, well below the targets set in the plan. In 1995, however, growth had recovered to 7.4%. A goal to meet all recurrent expenditures from domestic revenues by the end of the planning period, thus reducing Bhutan's dependence on external grants, was achieved in 1996, thanks primarily to revenues from the Chhukha power project.

In the eighth fiscal year plan (1997 to 2002) priorities were on the expansion of the hydroelectric sector, education and training improvements, protection of the natural environment, and further development of the private sector. In 1997 a second commercial bank, the Bhutan National Bank (BNB), was founded, with computerized operations and 49% public participation. In 1998, with the start of construction on the 1020 MW Tala Hydroelectric Project (THEP), GDP growth jumped briefly from 6% to 7.3%, before proceeding at an average of about 6% for the rest of the planning period. Indeed, 6% has been the average growth rate for Bhutan across the last three economic plans, 1988 to 2002.

The ninth fiscal year plan (2002 to 2006) promises a continuation of the same moderate progress, although it calls for a 75% increase in outlays over the revised eighth FYP. A central strategy of the plan is to check what is seen as excessive urbanization, up to 21% in 2002, through, intensive rural development. For the first time the plan includes separate plans for each of the country's 201 local units or geogs. The four priorities of the plan are increasing domestic tax revenue, improving rural quality of life and income, geog-based planning, and enhancing the private sector. The prospect is for Bhutan to continue to proceed at its own restrained pace.

#### 40 SOCIAL DEVELOPMENT

There is no national social welfare system, although the government implemented a modest maternal and child welfare program in the early 1980s, including family planning. The sick, indigent, and aged are cared for within the traditional family structure.

Bhutan's culture does not isolate or disenfranchise women. Dowry is not practiced, and land is divided equally between sons and daughters. Girls receive nearly equal educational opportunities, and, while accorded a lower status than boys, they are cherished because they are the ones who care for parents in old age. Polygamy is legal, but only with the consent of the first wife. The law clarifies the definition of sexual assault and imposes harsh penalties. There is no societal pattern of spousal or child abuse.

A pattern of discrimination against the minority Hindus of Nepalese origin exists. Thousands of Nepalese were deported from Bhutan in the late 1980s, and many others fled to refugee camps in Nepal. The government launched an effort to promote the cultural assimilation of the remaining Nepalese. Nepali was no longer taught in schools, and national dress was required for official occasions. While this policy has led to the cultural repression of Hindus, it has also contributed to a growing number of Nepalese obtaining employment in the public sector and in government. Repatriation of the exiled Nepalese remains an unresolved issue, one that the government formed in 1999 has promised to address.

Human rights are restricted by the government. Abuses include violence against Nepalese refugees and arbitrary arrest and detention. The king exercises control over the government, security forces, and the judiciary.

#### 41 HEALTH

Bhutan suffers from a shortage of medical personnel with only 65% of the population having access to any form of medical care. In 1990, there were 141 doctors (113,110 people per physician), 5 pharmacists, 9 dentists, 233 nurses, and 70 midwives. In 1995

there were an estimated 0.2 physicians, 0.4 nurses, and 0.6 midwives per 1,000 people.

The average life expectancy in 1999 was only 52.8 years (52.3 years for females and 53.2 years for males) and the overall death rate was 14.3 per 1,000 people. The infant mortality rate was 109 per 1,000 live births. In 1994, 38% of children under five were underweight. In 1993, it was estimated that 2% of married women (15–49 years) were using contraception. The fertility rate was reported as 5.2 per woman in 1999.

Immunization rates between 1990 and 1992 for children up to one year old were: tuberculosis, 81%; diphtheria, pertussis, and tetanus, 79%; polio, 77%; and measles, 82%. Although smallpox has been wiped out, malaria, tuberculosis, and venereal disease remain widespread. Bhutanese refugees in the eastern Nepal region have high rates of measles, cholera, tuberculosis, malaria, diarrhea, beriberi, and scurvy. There were 25 new cases of cholera in this country in 1994.

## 42 HOUSING

Though a small number of urban settlements have been developed over the past few years, most of the population (80%, 2001 est.) lives in rural areas, many on small family farms. It is, however, expected that the urban population will grow by about 50% over the next two decades, an estimate that has the Beninese government taking a harder look at options for new and improved housing construction and utility services. The Municipal Act of 1999 was established to decentralize control of housing and utilities, resulting in greater service and improved plans for the future. As part of the government's socioeconomic development policy, all homeowners are eligible for assistance through subsidized timber purchases and group fire insurance. The government has also established the National Committee on Human Settlements to oversee projects for urban development. Traditional houses are built of stone set in clay mixed with small stones and made into blocks or layers. Roofs are gently inclined and formed of pine shingles kept in place by heavy stones. As of 2000, 80% of urban and 60% of rural dwellers had access to improved water supplies, while 65% of urban and 70% of rural dwellers had access to sanitation services.

## 43 EDUCATION

A modern educational system was introduced in Bhutan in the 1960s. Prior to that, education was provided only by monasteries. In the interim, more than 340 schools and institutions of higher education have been established, including over 150 community schools to serve remote rural areas. However, many of these schools have no sanitation facilities, electricity, or drinking water, and students may have to walk several hours a day to get to them. A growing number of children are attending school, but over 50% still do not attend.

Efforts have been made to improve the education of women, and girls account for 45% of primary school enrollment. However, the overall literacy rate for women is still very low and lags far behind that for men. Bhutan's estimated rate of adult illiteracy for the year 2000 stood at 52.7% (males, 38.9%; females, 66.4%). The official language is Dzongkha (written in the Tibetan script). However, English is widely used. Education is not compulsory. The educational system consists of seven years of primary schooling followed by four years of secondary school. In 1994, primary schools enrolled 60,089 pupils. In the same year, secondary schools enrolled 7,299 students. The pupil-teacher ratio at the primary level was 42 to 1 in 1999.

In 1991, Bhutan had 209 schools altogether, including 22 monastic schools, schools for Tibetan refugees, and six technical schools. There was at the highest-level one junior college, two teacher training colleges, and one degree college which was affiliated to the university at Delhi in India. Many teachers from India are employed in Bhutan.

## 44 LIBRARIES AND MUSEUMS

The largest library in Bhutan is the National Library at Thimphu, containing 105,000 volumes as of 2002. Located in Konglung, Sherbutse College Library holds 22,000 volumes. The National Institute of Education in Samtse, founded in 1968, holds 12,000 volumes, and the Royal Institute of Management in Thimphu holds 5,000 volumes.

The National Museum of Bhutan opened to the public in 1968 at Paro Dzong, in a seven-story 17th-century fortress, featuring religious art objects reflective of Bhutan's unique Northern Buddhist culture, as well as historical objects. Some monasteries have valuable collections of Buddhist manuscripts and art objects.

## 45 MEDIA

International postal service was inaugurated in 1963; there are direct postal, telex, and microwave links to India. In 1997, Bhutan had over 6,000 telephones. Telephone service is said to be very poor.

In 1998, there was only one radio station. It is government-owned and includes broadcasts in Dzongkha, Nepali, English, and Sharchop. From 1989 to 1999, the government had imposed a ban on private television reception. Television broadcasting was reintroduced to the country in 1999 through the government's creation of the Bhutan Broadcasting Service, which broadcasts locally produced and foreign programs. The same year, the government allowed for the licensing of cable companies. In 2001, there were about 10,000 cable subscribers. Druknet, the nation's first Internet service provider was also established in 1999. By the end of 2000, there were about 1,820 subscribers, including Internet cafés in three major cities. In 1997, the country had an estimated 11 radios per 1,000 population.

A weekly government-subsidized newspaper, *Kuensel*, publishes simultaneous editions in Dzongkha, English, and Nepali, with a total circulation of about 11,162 as of 2002. Indian and other foreign publications are also available.

There are no legal provisions for the right of free expression in Bhutan; the government is said to restrict criticism of the King and government policies of the National Assembly.

## 46 ORGANIZATIONS

There are about 125 youth organizations throughout the country, which are affiliated through the Bhutan Youth Welfare Association (BYWA), established in 1985. The objectives of the BYWA are to preserve and promote the cultural and religious heritage of Bhutan and its national integration through the representation of youth to governmental authorities. Youth groups include Youths and Students Alliance for Human Rights and Democracy in Bhutan (YSAHRDB) and the Youth Organization of Bhutan, both of which focus on interests of peace and human rights. Scouting programs are also available.

The National Women's Association of Bhutan is one of the few non-governmental organizations officially registered in Bhutan. Other women's organizations, such as Bhutan Women and Children Organization and Refugee Women and Children Welfare Society have formed in exile. All of these are focused on the promotion human rights.

## 47 TOURISM, TRAVEL, AND RECREATION

In 1974, Bhutan opened its door to tourists, but strict entry regulations, the remoteness of the country, and relatively limited transportation facilities have restricted the number of visitors. Tourists may only enter as a member of an established tour group. Passports and visas are required. The beautiful Thimphu, Paro, and Punakha valleys, with their many monasteries, are accessible to tourists. Archery is the national sport.

Income from tourism totaled approximately \$10 million in 2000 and there were 7,559 foreign visitors, including over 5,000 visitors from the US and Europe.

In 1999, the UN estimated the cost of staying in Thimphu at \$59. In rural areas, expenditures were estimated at \$48 per day.

#### 48 FAMOUS BHUTANESE

Jigme Dorji Wangchuk (1928–72) instituted numerous social reforms during his reign as king of Bhutan. He was succeeded by his son Jigme Singye Wangchuk (b.1955).

#### 49 DEPENDENCIES

Bhutan has no territories or colonies.

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# BRUNEI DARUSSALAM

Nation of Brunei, Abode of Peace

*Negara Brunei Darussalam*

**CAPITAL:** Bandar Seri Begawan

**FLAG:** On a yellow field extend two diagonal stripes of white and black, with the state emblem centered in red.

**ANTHEM:** National Anthem, beginning *Ya Allah lanjutkan usia* (“God bless His Highness with a long life”).

**MONETARY UNIT:** The Brunei dollar (B\$, or ringgit) of 100 cents is valued at par with, and is interchangeable with, the Singapore dollar. There are coins of 1, 5, 10, 20, and 50 cents, and notes of 1, 5, 10, 50, 100, 500, 1,000, and 10,000 Brunei dollars. B\$1 = US\$0.5617; (or US\$1 = B\$1.78) as of May 2003.

**WEIGHTS AND MEASURES:** Imperial weights and measures are in common use, as are certain local units, but a change to the metric system is slowly proceeding.

**HOLIDAYS:** New Year’s Day, 1 January; National Day, 23 February; Anniversary of the Royal Brunei Armed Forces, 31 May; Sultan’s Birthday, 15 July. Movable holidays include the Chinese New Year and various Muslim holy days.

**TIME:** 8 PM = noon GMT.

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

Brunei occupies 5,770 sq km (2,228 sq mi) on the northwestern coast of the island of Borneo. Comparatively, the area occupied by Brunei is slightly smaller than the state of Delaware. It comprises two small enclaves separated by the Limbang River Valley, a salient of the Malaysian State of Sarawak, which surrounds Brunei on the E, S, and W. Brunei’s total boundary length is 381 km (237 mi).

Brunei’s capital city, Bandar Seri Begawan, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

Brunei’s western enclave contains most of the country’s population, as well as the capital; the thinly populated eastern zone is mainly dense forest. The land generally consists of primary and secondary tropical rain forest, with a narrow coastal strip on the western enclave. The eastern enclave is more hilly, rising to 1,850 m (6,070 ft) in the peak of Mt. Pagon in the extreme south.

## <sup>3</sup>CLIMATE

The country has a tropical climate, with uniform temperatures ranging from 23° to 32°C (73–89°F). Humidity is high—about 80% all year round—and annual rainfall varies from about 275 cm (110 in) along the coast to more than 500 cm (200 in) in the interior. Rainfall is heaviest during the northeast monsoon season (landas), especially in November and December.

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

The country is largely covered by mangrove and peat swamp, heath, montane vegetation, and dipterocarpaceous forest. The rain forest and swampland are inhabited by a plethora of small mammals, tropical birds, reptiles, and amphibians. Mammals include both wild and domesticated buffalo, honey bear, deer, and monkeys. Insects are abundant and sometimes harmful, in particular the malarial mosquito and biting midge.

## <sup>5</sup>ENVIRONMENT

The nation has an extensive oil industry with reserves that are estimated to last 20 years. The forests, which account for 79% of Brunei’s land area, are strictly protected by the government. Endangered species in 2001 included the black-faced spoonbill, Sumatran rhinoceros, the Siamese crocodile, and the painted batagur. Brunei is a party to international agreements on ozone layer protection, endangered species, whaling, and ship pollution and has signed but not ratified the Law of the Sea.

## <sup>6</sup>POPULATION

The population of Brunei in 2003 was estimated by the United Nations at 358,000, which placed it as number 166 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 108 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.27%, with the projected population for the year 2015 at 453,000. The population density in 2002 was 61 per sq km (159 per sq mi).

It was estimated by the Population Reference Bureau that 72% of the population lived in urban areas in 2001. The capital city, Bandar Seri Begawan (formerly Brunei Town), had a population of 85,000 in that year. Other important towns are Seria, Kuala Belait, and Tutong. According to the United Nations, the urban population growth rate for 2000–2005 was 2.0%.

## <sup>7</sup>MIGRATION

There is little emigration except among the Chinese minority. The government is battling considerable illegal immigration, especially from Indonesia and Sarawak. In 2000, the net migration rate was 2.6 migrants per 1,000 population. In that year there were 104,000 migrants residing in Brunei, which was almost one-third of the total population.

## **8 ETHNIC GROUPS**

Malays formed 67% of the population in 2002. Minorities included an estimated 15% Chinese and 12% designated as other. There is a small Caucasian minority, chiefly of English, Dutch, American, and Australian stock.

## **9 LANGUAGES**

Malay is the official language. English is also widely spoken, as is Chinese. The principal Chinese dialect is Hokkien, with Hakka, Cantonese, and Mandarin dialects also in use. Many native dialects are spoken as well.

## **10 RELIGIONS**

Islam, the official religion, dominates everyday life. Religious practice is controlled by the influential Religious Affairs Department. According to unofficial estimates, 67% of the population are Muslim. About 13% practice Buddhism, 10% are Christian, and 10% are tribal folk-religionists and members of other religious groups. Primary Christian denominations include Anglicans, Catholics, and Methodists.

## **11 TRANSPORTATION**

Two seaports, at Muara and Kuala Belait, offer direct shipping services to Hong Kong, Singapore, and several other Asian ports. However, wharf facilities at the deepwater port of Muara, though expanded to about 550 m (1,800 ft) in the mid-1980s, remain inadequate. In 2002, Brunei had 7 liquefied gas tankers with a total capacity of 348,476 GRT. The Brunei River, which flows by the capital, is a major thoroughfare.

In 2002, there were 1,712 km (1,063 mi) of main roads, of which 1,284 km (798 mi) were paved. Links between the capital and the other western towns are good. Road connections between Brunei and Sarawak are being built. Buses are inexpensive but unreliable; river taxis and cars are for hire. In 2000, the sultanate had 70,427 passenger cars and 14,342 commercial vehicles registered.

A 13-km (8-mi) railway is operated by the Brunei Shell Petroleum Co. In addition, there were 2 airports in 2001, only 1 of which had a paved runway. The national carrier, Royal Brunei Airlines, operates regular flights to Singapore, Hong Kong, Manila, Bangkok, Jakarta, Kuala Lumpur, and other cities. Some foreign airlines serve Brunei International Airport at Barakas, outside the capital.

## **12 HISTORY**

From the 14th to the 16th century, Brunei was the center of a powerful native sultanate occupying what are now Sabah and Sarawak and extending northward through the Philippines almost to Manila. By the 19th century, much of this empire had been whittled away by war, piracy, and the colonial expansion of European nations. In 1847, the sultan concluded a treaty with Great Britain for the suppression of piracy and furtherance of commercial relations. In 1888, Brunei became a British protectorate, and in 1906 a resident British commissioner was established. By a 1959 agreement (amended in 1971), Brunei was recognized as fully self-governing, with Britain retaining responsibility for defense and foreign affairs. Brunei's first elections, held in 1962, resulted in a victory for the Brunei People's Party, militant nationalists who denounced Brunei's entry into a proposed federation with Malaysia, which had attained independence in 1957. Prevented from taking office, the nationalists, with Indonesian backing, revolted against Sultan Omar Ali Saifuddin in December 1962; the revolt was quickly put down with British assistance, but the sultan decided against federation in any case. From that time on, the sultanate has ruled by decree under a national state of emergency. In 1967, Sultan Omar abdicated in favor of his son, Muda Hassanal Bolkiah.

Sultan Omar, who after his abdication remained as defense minister and assumed the royal title of Seri Begawan, died in 1986.

During the 1970s, Brunei emerged as the richest state in Southeast Asia, profiting from its oil wealth and the steep increases in international oil prices. Much of this vast oil income has been expended by the state on modernization and social services. Brunei renegotiated its treaty with the United Kingdom in mid-1978 and, on 7 January 1979, concluded a new treaty providing for independence within five years.

On 1 January 1984, the country attained full independence and was also proclaimed a member of the British Commonwealth. On 7 January 1984 Brunei joined the Association of South-East Asian Nations (ASEAN) and joined the United Nations in the same year. Brunei is also a member of the Organization of Islamic Conference.

In 1985 a new political party was formed, the Brunei National Democratic Party (BNDP), comprised predominantly of businessmen loyal to the Sultan. However, government employees were forbidden by the Sultan to join. The Chinese community was also excluded from membership. In 1986 an offshoot of the BNDP was formed, the Brunei National United Party (BNUP), which emphasized greater cooperation with the government. The BNUP favored the establishment of an elected prime-ministerial system, however. The BNUP's membership was open to Muslims and non-Muslims, but still excluded Chinese. In 1986, Brunei was solicited by the US government to aid the Nicaraguan Contras, but the \$10 million donation was credited to the wrong bank account and never reached its intended destination. The donation was eventually traced and returned to Brunei with interest.

In 1988 the top two leaders of the BNDP, President Haji Abdul latif bin Abdul Hamid and Secretary-General Haji Abdul Latif bin Chuchu, were arrested as they were about to fly to Australia. They were held under the Internal Security Act, which allows detention for up to two years without charges being filed, and were detained until 1990. In May of that year, Haji Abdul latif bin Abdul Hamid died. In 1990 the government released six other political prisoners who had been detained since 1962.

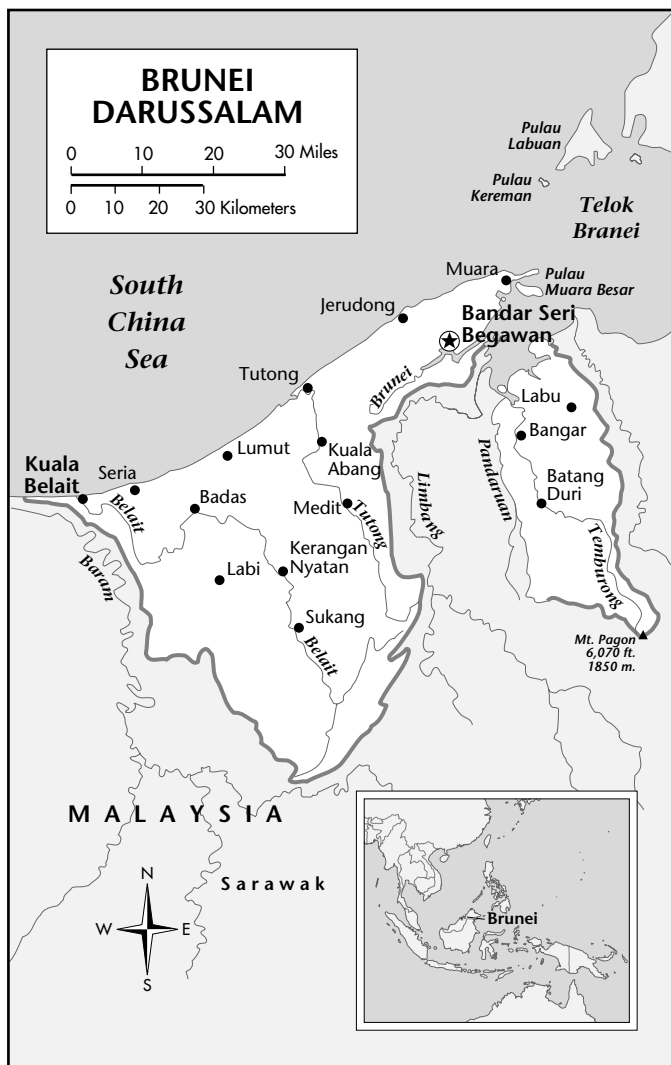
Increasing emphasis on Melayu Islam Beraja (MIB) as a state ideology has resulted in the affirmation of traditional values due to increasing concern about an affluent and worldly younger generation. In 1991 the import of alcohol and the public celebration of Christmas were banned. His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah celebrated 25 years on the throne in October 1992. Once taken to be the richest man in the world, as of 2001, the Sultan was listed by *Forbes* magazine as one of the fifteen wealthiest individuals in the world, with US\$16 billion.

Brunei established diplomatic relations in 1993 with China, Vietnam and Laos.

In 1998 Brunei's economy was hit simultaneously by falling oil prices, regional currency depreciation stemming from the region's economic crisis, and the collapse of the multibillion-dollar Amedeo conglomerate run by the Sultan's brother, Prince Jefri Bolkiah, who was removed from his post as the country's finance minister. However, tensions persisted between the Sultan and his brother, who fled to London. Upon his return in early 2000, the government sued him and dozens of other persons for misuse of public funds.

As the new century began, Brunei was looking for ways to diversify its heavily petroleum-dependent economy as its oil and gas reserves waned.

In November 1999, Brunei and the nine other members of the Association of Southeast Asian Nations (ASEAN), agreed informally to create a free-trade zone by eliminating duties on most goods traded in the region by 2010. When ASEAN met in November 2002, the Southeast Asian leaders and China began



LOCATION: 4°2' to 5°3' N; 114° to 115°22' E. BOUNDARY LENGTHS: Malaysia, 381 kilometers (237 miles); South China Sea and Brunei Bay coastlines, 161 kilometers (100 miles). TERRITORIAL SEA LIMIT: 12 miles.

concrete talks to create what would be the world's largest free trade area, encompassing 1.7 billion people and trade valued at US\$1.2 trillion. The free trade area is expected to take 10 years to implement but tariffs on some agricultural products could be cut by early 2003. Products covered by the early package include live animals, meat, fish, dairy produce, other animal products, live trees, vegetables, fruit, and nuts. Talks for trade in goods, services, and investments were due to be held in 2003.

On 16 December 2002, the Sultan met with US president George W. Bush, to strengthen trade between the two countries and to coordinate antiterror efforts in the wake of the 11 September 2001 attacks on the United States. The terrorist attack on a nightclub in Bali, Indonesia, on 12 October 2002 was also a warning that the Southeast Asian region is susceptible to, and perhaps a breeding ground for, the activities of international terrorist organizations.

Brunei, along with the People's Republic of China, Vietnam, Malaysia, Taiwan, and the Philippines, is engaged in a regional dispute over claims to the Spratly Islands, situated in the South China Seas, which are strategically important and may have large oil and gas reserves. In one of the most recent cases of friction, in August 2002, Vietnamese troops based on one of the Spratly islets fired warning shots at Philippines military planes. On the

eve of the ASEAN summit held in November 2002, ASEAN leaders and China signed a declaration of conduct, agreeing not to attempt to occupy the Spratlys. The pact is not binding, but it is hoped that it will help ensure regional security.

### 13 GOVERNMENT

Brunei is an independent Islamic sultanate. The 1959 constitution (parts of which were suspended in 1962) confers supreme executive authority upon the sultan and provides for five Constitutional Councils: a Privy Council, Council of Ministers, Legislative Council, Religious Council, and Council of Succession to assist him. The members of these bodies are appointed by the sultan. The chief minister (*mentri besar*) is also appointed by the sultan and is responsible to him for the exercise of executive authority. An elected Legislative Council is being considered as part of constitutional reform, but elections are unlikely for several years. In August 2000, the foreign minister confirmed that a review of the constitution had been submitted to the sultan for approval, and that "an element of an election" was in this report.

At his 1992 Silver Jubilee celebration the sultan emphasized his commitment to preserving Brunei's political system based on the concept of Melayu Islam Beraja (MIB), or Malay Islam Monarchy, as the state ideology. MIB combines Islamic values and Malay culture within a monarchical political framework with the monarchy as defender of the faith.

### 14 POLITICAL PARTIES

Parties were organized shortly after self-government was achieved in 1959. However, when the Brunei People's Party won 98% of the legislative seats in the country's only election, held in 1962, the sultan barred its candidates from office and outlawed all political parties under a continuing state of emergency. Political parties reemerged in the 1980s, but in 1988 they were banned and many of their leaders were arrested. At that time, the political parties were: the Brunei National Democratic Party (BNDP), founded in 1985, and the Brunei National United Party (BNUP), founded in 1986 by an offshoot of the BNDP. In contrast to the BNDP, membership in the BNUP was open not to Brunei Malays only, but to other indigenous people, whether Muslim or not. The Chinese were left with the option of forming their own party. (Under Brunei's restrictive naturalization policies only 6,000 Chinese had been granted citizenship.)

In 1995, the Brunei National Solidarity Party (PPKB in Malay), one of the initial parties that had been banned in 1962, formally requested authorization to hold a convention and elected Abdul Latif Chuchu, the former secretary-general of the BNDP, as its president. As of 2002, its president was Mohd Hatta bin Haji Zainal Abidin.

### 15 LOCAL GOVERNMENT

There are four administrative districts: Brunei-Muara, Kuala Belait, and Tutong in the western enclave, and Temburong in the east. Government is centrally controlled, but allowance is made for local tribal customs. District officers responsible to the ministers of home affairs administer each district. As part of the MIB ideology, village consultative councils have been introduced, making direct elections unnecessary. Instead, popularly elected headmen would function as mediators between the people and the central government. In June 1993 the Sultan stated "Brunei will strictly adhere to the MIB concept without resorting to fruitless political culture."

### 16 JUDICIAL SYSTEM

There are five levels of courts with final recourse available through the Privy Council in London. Beginning with the courts of first instance, there are courts of Kathis that handle family matters such as marriage and divorce by applying Islamic law (*Shari'ah*). Lower courts called sultan's courts, presided over by

magistrates, hear other ordinary cases involving minor disputes. Such cases may be appealed to the High Court, a court of unlimited original jurisdiction in both civil and criminal matters. The High Court is presided over by a chief justice and justices appointed by the sultan. Decisions of the High Court can be taken to the Court of Appeal, presided over by the president and two commissioners appointed by the Sultan. The Supreme Court consists of the High Court and the Court of Appeal.

In 1995, the right to appeal to the Privy Council in London was terminated in criminal cases. This final recourse remains available only for civil cases.

In May 2002, a State Judiciary Department was established in Brunei, which is responsible for the administration of Brunei's judicial matters.

Certain provisions of the 1959 constitution have been suspended under the state of emergency since 1962.

## 17 ARMED FORCES

The Royal Brunei Armed Forces in 2002 consisted of an army of 4,900 (including 700 women), a navy of 1,000, and an air force of 1,100. Paramilitary forces include a Gurkha reserve unit of 2,000 and 1,750 members of the Brunei Royal Police. Brunei spent \$343 million for defense in 1998 or 5.1% of GDP.

## 18 INTERNATIONAL COOPERATION

Brunei was admitted to UN membership on 21 September 1984, and is a member of ICAO, IMF, IMO, ITU, UPU, WHO, WIPO, and WMO. It is also a member of the Commonwealth of Nations, ASEAN, and the Organization of the Islamic Conference, as well as a member of the WTO.

## 19 ECONOMY

Discovery of extensive petroleum and natural gas fields in the 1920s brought economic stability and modernization to Brunei. Today its economy, a combination of domestic and foreign entrepreneurship, government regulation, welfare programs, and village tradition, remains overwhelmingly dependent on the oil and gas sector. This sector accounts for almost 50% of GDP, almost 90% of exports, and 75 to 90% of government revenues, although, in 2002, for the first time, earnings from Brunei's overseas investments totaled more than its revenues from the petroleum exports. Brunei's per capita GDP is one of the highest in Asia, though sharply down from the peak reached in 1980. Brunei's oil production also peaked in 1980 at an estimated 270,000 barrels per day, but has been deliberately cut back since then to preserve the country's oil reserves, which are conservatively estimated to last another 20–25 years.

In early 2001, decrees designed to make investment in Brunei more attractive were promulgated, and in March 2001 an out-of-court settlement of the Amedeo Development Corporation scandal, done in the "Brunei way," was announced. The Sultan's younger brother, Prince Jefri, Finance Minister and head of the Brunei Investment Authority (BIA) had been accused of misappropriating as much as \$28 billion of public funds through the Amedeo corporation, which declared bankruptcy at the height of the Asian financial crisis. In all, 71 people were accused, including Prince Jefri's son, Prince Hakeem, suspected of receiving \$1.08 billion. By 2002, the Global Everygreen Corporation, revealed to be fully government-owned, had settled all of Amedeo's outstanding debts, taken over several of its projects with the intention of completing a number of them, a significant factor in a revival of the construction sector, Brunei's second-largest industrial sector. The government is increasing efforts to promote Brunei as a destination for upscale tourism and ecotourism. Meanwhile, attempts to diversify the economy pursuant to the national development plan have moved slowly. Manufacturing is estimated to have contributed a little over 3% to the GDP in 2001. Real GDP growth improved sharply in 2000,

to 3.5%, because of higher oil prices. With the global economic slowdown and lower oil prices in 2001, the GDP growth rate is estimated to have fallen to 3%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Brunei Darussalam's gross domestic product (GDP) was estimated at \$6.2 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 1999 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. It was estimated that agriculture accounted for 5% of GDP, industry 45%, and services 50%. Foreign aid receipts amounted to about \$1 per capita.

## 21 LABOR

In 1999, there were an estimated 143,400 members of the labor force, which included foreign workers and members of the military. Due to a labor shortage there was a large number of foreign workers who were temporary residents, many of them illegal immigrants from neighboring countries. In that year the government employed 48% of the workers, with 42% of employees in the production of oil, natural gas, services, and construction. The remaining 10% of workers were employed in agriculture, fishing, or forestry. The estimated unemployment rate in 2001 was 10%.

Although legal, conditions are not conducive to trade unions. Culture and tradition do not support the idea of trade unions, and most workers are not employed in industries that are traditionally union dominated. Even in the oil industry, only 5% of workers are unionized. Strikes are illegal.

Children under the age of 18 may only work with parental consent and the approval of the Labor Commission. The law prohibits employment of children under the age of 16. There are no reports of violations of these child labor laws. Although there is no minimum wage, most employees earn a generous living wage. The workweek is limited to 48 hours of work for five days, with two mandatory 24-hour rest days. The approximately 80,000 foreign workers do not receive the same conditions and wages.

## 22 AGRICULTURE

Temporary and permanent crops are actively cultivated on an estimated 7,000 hectares (17,300 acres), which represent 1.3% of total land area. Agriculture accounts for 5% of GDP and employs some 2% of the work force. Rice production is low (only about 1,000 tons per year), and Brunei imports more than 80% of its requirements. Urban migration and more profitable jobs in the oil industry have led to a shortage in farm labor. An agricultural training center, sponsored by Brunei Shell and the Department of Agriculture, was established in 1978 to encourage young people to return to the land. Crops for home consumption include bananas, sweet potatoes, cassava, coconuts, pineapples, and vegetables.

## 23 ANIMAL HUSBANDRY

Cattle, buffalo, hogs, goats, and fowl are raised. In 1978, McFarm (a Mitsubishi subsidiary) set up a cattle-breeding station in order to reduce meat imports. The government owns a cattle station in Australia that is larger in area than Brunei itself. Livestock within Brunei in 1999 included an estimated 6,000 head of buffalo, 3,000 goats, 5,000 pigs, 2,000 head of cattle, and five million chickens. Meat production that year was estimated at 10,000 tons, with poultry meat accounting for 80% of the total. The government also encourages livestock production through the Mitsubishi Cattle Breeding Project.

## 24 FISHING

Traditional fishing has declined in recent years, with only 60% of home consumption provided by local fishermen. The Fisheries Department has supplied a small trawling fleet, and continuing efforts are being made to develop both freshwater and saltwater aquaculture. Fish hatcheries are in operation on a six-hectare (15-acre) site near Muara. The annual fish harvest in 2000 totaled 2,487 tons, down from 7,405 tons in 1996.

## 25 FORESTRY

Forests cover and estimated 82% of the land area. Forest reserves constitute about 41% of the land area. Exports of timber are restricted. There is a small sawmill and logging industry for local needs. In 2000, Brunei produced about 229,000 cu m (8 million cu ft) of roundwood.

## 26 MINING

Brunei's mining industry was engaged primarily in the production and processing of crude oil and natural gas. Principal nonfuel mineral resources in 2001 were carbonate rocks, coal, kaolin, sand and gravel, and other varieties of stone. In 2000 construction started on a silica-processing plant to produce silica plates from the country's reserves of high-quality silica sands in Tutong District.

## 27 ENERGY AND POWER

Commercial oil production, which began in 1929, dominates the economy. Production of crude oil in 2000 amounted to 173,000 barrels per day; output of liquefied natural gas (LNG) was about 22,000 barrels per day. As of 2002, exports of crude oil and natural gas accounted for 80% to 90% of all exports and more than 50% of gross domestic product (GDP). Exploratory drilling for new reserves continues, and capital expenditure on petroleum development remains high. As of early 2002, proven reserves of oil totaled 200 million tons (1.3 billion barrels); at the current rate of extraction, known oil reserves will have been depleted by 2017. After peaking at 240,000 barrels per day in 1979, crude oil production was deliberately lowered in 1988, through a self-imposed conservation quota of 150,000 barrels of oil per day, to extend the life of Brunei's reserves. There are seven offshore fields belonging to Brunei, of which the largest is the Champion field, with about 40% of the country's total reserves. Brunei opened its first deepwater drilling areas in 2001 and accepted bids by two international consortia. There are plans to expand LNG production by 4 million metric tons by 2008. Brunei continues to be a major supplier of liquefied natural gas to Japan under 20-year contracts, the last renewed in 1993 by the then-newly established Brunei Oil and Gas Authority. The LNG plant at Lumut, Brunei is one of the largest in the world.

Electric power and natural gas supplies are readily available at low cost. Total installed capacity in 2001 was 763,000 kW, all of it in conventional thermal plants. In 2000, net electricity generation was 2.4 billion kWh, of which 100% came from fossil fuels. In the same year, consumption of electricity totaled 2.1 billion kWh.

## 28 INDUSTRY

Industry is almost entirely dependent on oil and natural gas production, and there has been little progress in the government's efforts at diversification. In 2001, Brunei's oil production accounted for only .3% of world total, but it is the third-largest oil producer in Southeast Asia, after Indonesia and Malaysia. Revenues from the petroleum sector account for almost 50% of GDP, although in 2002, overseas investment earnings for the first time exceeded these revenues. Lumut, Brunei has one of the world's largest liquefied natural (LNG) gas plants, operated by Brunei Shell Petroleum (BSP) a 50-50 joint venture partnership

between the government and Royal Dutch/Shell. Japan as the major customer under a 20-year contracts, the first in 1972, and the second renewed in 1993. Brunei is the fourth-largest LNG producer in the world, and the third largest producer of natural gas in Southeast Asia. Brunei's second-largest industry, construction, was given a boost in 2001 when the Global Everygreen Corporation, revealed as a government-owned enterprise, announced that it was taking over a number of the projects of the bankrupt Amedeo Development Corporation, such as the Empire Hotel and Country Club, the Berakus Power Station, the DST Corporate Tower, and the Jerudong Marina, with the intention of completing some of them. The construction industry was also stimulated by \$1 billion made available by the government for projects under its 8th National Development Plan, announced in late 2001 and early 2002. Local cement production was estimated to have increased 8.1% over the year before in the third quarter of 2002. Other domestic industrial sectors showed little progress, however. In the manufacturing and processing sector, production of garments, were estimated to have declined 4.3% in 2002.

Production of industrial goods included, in 2002, an estimated 10.8 million cu m (380 million cu ft) of LNG and, in 2001, 173,000 barrels of oil per day and 10.3 million tons oil equivalent of natural gas. The small manufacturing sector includes production for the construction sector, sawmills and brick and tile factories. Government support of small-scale projects in food and beverage processing, textiles, furniture making and specialist optics has had limited results. Small commercial enterprise is still carried on mainly by Chinese entrepreneurs. In 1976, the government set up the Economic Development Board to assist new industries by granting tax and import exemptions, and recent efforts are aimed at increasing the employment of the local Malay population in the private sector.

The industrial production growth rate was listed as 4% in 1997.

## 29 SCIENCE AND TECHNOLOGY

Advanced science and technology have been imported in connection with development of the oil industry. Foreign technology expertise is employed in communications and other infrastructural programs. The Ministry of Industry and Primary Resources conducts agricultural research. The University of Brunei Darussalam, founded in 1985, has a faculty of science. The Technological Institute of Brunei, located in Bandar Seri Begawan, and the Jefri Bolkaih College of Engineering in Kuala Belair, offer engineering courses. Brunei hosted the sixth ASEAN (Association of Southeast Asian Nations) Science and Technology week in Bandar Seri Begawan in September 2001.

## 30 DOMESTIC TRADE

The economy of Brunei is primarily based on oil exports. Crude oil, petroleum products, and natural gas constitute more than 99% of Brunei's export value. Most food products and other consumer goods come from Singapore, Japan and Malaysia. Most of Brunei's beef is supplied by a government-owned cattle ranch in Australia which is larger than Brunei itself.

Though foreign investment is encouraged, the government is making efforts to increase local participation in industry and commerce. All companies must be incorporated locally or registered as a branch of a foreign company. At least half of the directors of any company must be residents of Brunei. Public companies are required to have at least seven shareholders and private companies must have between two and 50 shareholders. There is no personal income tax or capital gains tax in Brunei.

## 31 FOREIGN TRADE

Brunei's huge trade surpluses have enabled it to maintain an enviable payments position. Foreign exchange reserves stood at

about US\$20 billion in 1986, or more than US\$87,000 per capita. In 1997, foreign reserves were estimated at \$40 billion.

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	1,225	101	1,124
Korea	414	22	392
United States	210	235	-25
Singapore	181	356	-175
Thailand	141	68	73
Malaysia	19	265	-246
United Kingdom	16	104	-88
Germany	13	50	-37
Indonesia	5	53	-48
China	4	91	-87

### 32 BALANCE OF PAYMENTS

The banking industry is controlled by the Association of Banks, in liaison with the government. In 1999 there were nine banks operating in Brunei. Of these, three were locally incorporated and six were foreign, among them the Hongkong Bank, Malayan Banking Berhad, and Citibank. The International Bank of Brunei, in which the sultan has a 51% stake, is the larger of the local banks. The other, the National Bank of Brunei, was seized in 1986 by the government, which charged the majority shareholders with irregularities, and later closed in the early 1990s. Other banks are the Baiduri Bank, Sime Bank, the Development Bank of Brunei, the Overseas Union Bank, and the Standard Chartered Finance (Brunei) Berhad. The managing director of the Brunei Investment Agency (BIA), Abdul Aziz Abdul Rahman, met France's Treasury director, Jean Lemierre, in mid-December 1996 to discuss the possibility of opening a BIA office in Paris. BIA's French investments are currently managed from the agency's offices in London and Brussels. Approximately half of the country's revenue is now derived from the income from these investments. The Brunei Investments and Commercial Bank, a subsidiary of the Brunei Investment Agency, acquired a 13.4% stake in the Australian Macquarie Bank in November 1996, making the BIA the single largest shareholder.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Brunei Darussalam's exports was \$3 billion while imports totaled \$1.4 billion resulting in a trade surplus of \$1.6 billion.

### 33 BANKING AND SECURITIES

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### 34 INSURANCE

In 2003, Brunei had four companies providing general and life insurance: American International Assurance Co. Ltd., BALGI Insurance, General Accident and Life Assurance, and Simi AXA Assurance Berhad.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1997 Brunei Darussalam's central government took in revenues of approximately \$2.5 billion and had expenditures of \$2.6 billion including capital expenditures of \$1.4 billion. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$0.

### 36 TAXATION

Citizens of Brunei pay no income taxes and are the beneficiaries of generous welfare subsidies. However, Chinese, who make up an estimated 16% of the population, are excluded from citizenship, and these benefits. They are either stateless or hold British protected persons passports. Only corporations are subject to taxation. Taxation on petroleum income is subject to special legal provisions, dating from 1963. Companies pay a 30% tax on earnings. There is a double-taxation agreement between Brunei and the United Kingdom. Exemption from taxes can be granted by the sultan in council to industries deemed essential for the country's development. By Income Tax Order 2001, companies granted a Pioneer Certificate, foreign or domestic, are exempted from the 30% tax for two to five years, depending on the size of their capital investment, specified in round dollar terms with an obvious eye to outside investors: for less than \$250,000 the exemption is for two years; for \$250,000 to \$500,000, three years; \$500,000 to \$1 billion, four years; and above \$1 billion, five years. Pioneer and export industries are exempt from customs duties on imports of raw materials and capital goods.

### 37 CUSTOMS AND DUTIES

Brunei levies tariffs ranging from zero to 30% on selected items including perfume, and has a single-column tariff structure. The country joined ASEAN in 1984 and has reduced trade barriers with member nations.

### 38 FOREIGN INVESTMENT

In July 1983, the sultanate withdrew its investment portfolio of more than B\$3 billion (about half of total investment) from agents of the British crown, who traditionally had handled investment banking for Brunei. The Brunei Investment Agency (BIA) was established in its place, charged with managing a substantial portfolio of assets invested around the world. The Sultan's younger brother, Prince Jefri, who was also finance minister, was head of the BIA, and he set up a conglomerate, Amedeo Development Corporation, to serve as a corporate umbrella for all non-petroleum sector investments. However, in the midst of the Asian financial crisis it in 1997 and 1998, Amedeo collapsed into bankruptcy, to the shock of most observers, including the Sultan who found out when he was forced to withdraw offers of aid he had made to other countries to help them through the crisis. It was subsequently revealed that as much as \$28 billion of public investment funds had been misallocated and lost. Over 200 creditors brought suits, and charges were brought against Prince Jefri, who was removed from his offices and went into exile in London, and 71 others, including Prince Jefri's son, Prince Hakeem, who was suspected of having received over \$1 billion. The Amedeo scandal shut off most foreign investment in Brunei in 1999 and 2000. In 2000, in

a bid to become an offshore international banking center, the government established the Brunei International Financial Center, but it was not under August 2002 that the first international bank, the Royal Bank of Canada, registered under this legislation. A report issued by the United Nations Conference on Trade and Development (UNCTAD) in 2001 ranked Brunei 128th out of 140 countries surveyed in terms of attractiveness to outside investors, measured as the size of foreign investments relative to the size of the economy (apparently not counting, however, Brunei's 50–50 joint venture arrangement with Royal Dutch/Shell in the country's near monopolistic oil company, Brunei Shell Petroleum (BSP), as involving foreign investment). By 2001, however, the government had reached some closure with the Amedeo matter and had taken some determined steps to make Brunei a more attractive environment for outside investment.

In January 2001, the Sultan issued two decrees, Investment Incentive Order 2001 and Income Tax (As Amended) Order 2001, that contained reforms designed to attract business. The first made application for tax incentives simpler for corporations, and the second broadened the tax incentives. Also in January 2001, the government took two steps that laid the basis for opening the oil and gas sector to increased foreign participation. First, it announced the creation of a new wholly government-owned national oil company, Brunei National Petroleum Company Sendirian Berhad (Petroleum BRUNEI), which would have dual functions as a regulatory agency and a commercial entity. Second, it announced that its mode of operation in the oil and gas sector would henceforth be through Production Sharing Contracts (PSCs) in place of the former concession system. Both steps pointed to greater opportunities for foreign oil countries, particularly given that two of Royal Dutch Shell's concessions are set to expire in 2003.

In late 2001, the government added \$1 billion to investment funds available for projects under its eighth National Development Plan. In 2002, earnings from Brunei's investments abroad for the first time exceeded its earnings from exports from its oil and gas sector. In 2002, the first exploration rights in deep-sea parcels in Brunei's Exclusive Economic Zone (EEZ) were awarded under the PSC regime.

### 39 ECONOMIC DEVELOPMENT

The two major themes that have guided Brunei's economic development plans have been the managed exploitation of its oil and gas resources, and diversification of the economy beyond the petroleum sector. Perennially, it has been more successful at the first than the second. In the recent years, the problem has been aggravated by the scandalous collapse in 1998 of the Amedeo Development Corporation, the country's largest non-petroleum conglomerate, with revelations that under the management of the Sultan's younger brother, Pince Jefri, who was also Finance Minister and head of the Brunei Investment Agency (BIA), as much as \$28 billion in public investment funds had been misallocated, and lost. What possibilities there were for economic diversification were per force put on hold for 1999 and 2000 while the government recovered not only from the loss of funds, but from the loss of confidence in its economic management. In 2001, however, the government announced a series of initiatives that indicated it had weathered the scandal, and was ready to revive its development efforts in both the petroleum and the non-petroleum sectors. In March, Global Everygreen, a government entity, announced that all outstanding debts of the Amedeo Corporation had been settled out-of-court, and that it was, further, taking over a number of the projects Amedeo had started with the intention of completing many of them. Later in 2001, the government created a new Brunei Economic Development Board (BEDB) charged expressly with implementing government policies to encourage domestic investment and attract foreign investment that would contribute to Brunei's economic

development. As head of the BEDB, effective July 2002, the government appointed John A. Perry, a British national who had most recently been a managing director for Totalfina Elf in Asia.

For years virtually all of Brunei's oil and gas exploration, development, processing and trading was conducted by Brunei Shell Petroleum Corporation (BSP), a 50–50 joint venture of the government and Royal Dutch/Shell. In November 2001, however, Sultan Bolkiah announced the creation of a wholly government-owned, national oil company, the Brunei National Petroleum Company Sendirian Berhad—Petroleum BRUNEI, for short—which would “play a more active role in both petroleum exploration and development.” The government also announced that in the future Production Sharing Contracts (PSCs) would replace concessions in the oil and gas sector. In 2002, two PSCs were reached with consortiums that included Australian, French, Japanese, and American companies, and only one of which included Royal Dutch/Shell, for the first two deep sea parcels opened in Brunei's Exclusive Economy Zone. Two of BSP's concessions are up for renewal in 2003, which the government may use as an opening for introducing more new players.

Brunei's economic development initiatives have been structured in terms of a series of National Development Plans. The two main traditional employers were the government, which absorbs about half the work force, and Brunei Shell Petroleum. Development efforts for a non-oil, non-state sector and the potential for increasing foreign investment have been limited by the small domestic market, a shortage of skilled manpower, and relatively high labor and transport costs. The national development plan for 1986–90 (the fifth) was, like the subsequent ones, concerned with diversification of the economy in order to prepare for the time when oil and gas reserves would run out. It emphasized development of the agricultural sector to lessen the country's reliance on imported foods. Industrial development projects focused on light industries, but also included plants for the production of cement and precast concrete. Service industries were encouraged, especially banking and finance, in the hope of developing Brunei into an international financial center. The establishment of a development bank also ranked high on the government's agenda. The sixth national development plan (1991–95) gave special emphases to stimulating growth of the private sector, to promoting human resources and industrial development. The largest budget allocation was for social services (29.3%), with equal percentages for public utilities and transport and communications (20% each), 10% allocated to trade and industry, and about 7% to security forces. The ambitious programs of the seventh national development plan for 1996 to 2000 to achieve diversification through increased privatization, and domestic and foreign investment were shattered in the double blow of the Asian financial crisis in 1997 and the scandalous collapse of the Amedeo Corporation, Brunei's flagship investment conglomerate, in 1998. Most of this rest of this plan period was spent recovering from the effects of the loss of funds and loss of business confidence. The eighth national development plan (2001 to 2005) has added a more aggressive and engaged exploitation of the oil and gas sector to the perennial concern with diversification beyond this sector. In late 2001, the government announced that an additional \$1 billion would be made available for development projects in 2002.

### 40 SOCIAL DEVELOPMENT

The state provides free medical care, and remote regions are served by mobile clinics and a flying doctor service; there is also a school health service. As of 1996, there were 8 hospitals (4 of which are run by the government). Medical personnel in 1991 included 197 physicians, and, in 1989, 8 pharmacists and 30 dentists. The death rate went from 4.2 per 1,000 population in 1974 to 5.2 per 1,000 in 1999. In 1999, the infant mortality rate was 22.8 per 1,000 live births. Life expectancy in 1999 was

estimated at 71.8 years. In 1990, 96% of the population had access to health care services, and 90% had access to safe drinking water. During 1994, 92% of the country's children were immunized against measles. Malaria has been eradicated from Brunei (although it remains a problem in adjacent Sarawak), and cholera is close to nonexistent. There is, however, still some risk of filariasis, tuberculosis, typhoid fever, and intestinal flu. In 1996, there were 6 new cases of AIDS reported.

#### 41 HEALTH

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#### 42 HOUSING

Since the mid-1970s, the government has supported an ongoing housing program through the National Development Plan to encourage and support homeownership for all citizens. As of 2000, interest-free home loans were available to all citizens (there was no personal income tax within the country either), however, this may change as the government reconsiders the sustainability of its oil-based economy. Through the Landless Indigenous Citizens Housing Scheme (LICS), the government has constructed at least eight housing project sites to offer affordable, modern housing to low-income residents. From 1972–1997, over 4,000 new homes were built through the LICS.

#### 43 EDUCATION

The state provides free education from kindergarten up, including university training abroad. As of 1995, 93% of primary-school-age children were enrolled in school, while 68% of those eligible attended secondary school. In 1996 there were 160 primary schools, with 432,941 pupils. Secondary schools had 30,470 students and 2,961 teachers in the same year. The pupil-teacher ratio at the primary level was 13 to 1 in 1999. For the year 2000, adult illiteracy rates were estimated at 8.4% (males, 5.3%; females, 11.8%). Education is compulsory between the ages of 5 and 16. Six years of primary are followed by seven years of secondary education. The official policy is to promote bilingual education, Malay and English, in all government-supported schools. As of 1999, public expenditure on education was estimated at 4.4% of GDP.

Foreigners generally attend private mission schools, the International School, and the Chinese School. Brunei Shell also funds several schools, and there are numerous religious academies. There are two teacher-training colleges and five vocational technical schools, including an agricultural training center. Brunei also has a university, established in 1985, and institutes of education and technology. The University of Brunei Darussalam (founded in 1985) has faculties for education, arts and social sciences, science, and management and administration. In 1996, 1,270 students were enrolled in institutes of higher

education. Many students, however, continue their education in foreign universities at government expense.

#### 44 LIBRARIES AND MUSEUMS

The University of Brunei at Gadon holds 29,000 volumes, while the Brunei Museum houses 60,000. The Public Library Service has a total of 311,000 volumes.

Brunei has approximately nine museums, most of which are in the capital city of Bandar Seri Begawan. Notable are the Brunei Museum, which exhibits ethnology and the history of Borneo Island; the Malay Technology Museum; the Royal Regalia Gallery, a fine arts museum opened in 1992; and the Royal Brunei Armed Forces Museum, which features the world's fastest patrol boat.

#### 45 MEDIA

The powerful Religious Affairs Department permeates daily life; its activities include sponsoring Islamic pilgrimages and establishing village mosque committees. Sports facilities tend to be privately maintained. There are four chambers of commerce in the country.

#### 46 ORGANIZATIONS

The powerful Religious Affairs Department permeates daily life; its activities include sponsoring Islamic pilgrimages and establishing village mosque committees. Sports facilities tend to be privately maintained, with some athletic groups sponsored through the Brunei Amateur Athletic Association. There are four chambers of commerce in the country. The Council of Women of Negara Brunei Darussalam, founded in 1985, strives to improve the economic, cultural, and social status of women. Non-governmental youth movements in Brunei include the Brunei Youth Council, Boy Scouts, and Girl Guides. The Brunei National Olympic Committee coordinates activities for national youth sports federations.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Brunei's newest and most remarkable sights is the sultan's 1,788-room palace, built at a reported cost of US\$300 million and topped by two golf-leaf domes. Native longhouses are also a tourist attraction but are hard to reach, and trips up the Brunei and Tutong rivers are interesting but not yet well organized. Every visitor must have a valid passport; visas are normally required, but there are exemptions based on nationality and purpose and length of visit.

There were 984,093 visitor arrivals to Brunei in 2000. That year there were 2,412 hotel rooms with an occupancy rate of 63%.

In 2002, the US Department of State estimated that the cost of staying in Brunei was between US\$123 and \$235 per day.

#### 48 FAMOUS BRUNEIANS

Omar Ali Saifuddin (1916–86) was sultan from 1950 to 1967 and minister of defense from 1984 to 1986. His son, Muda Hassanal Bolkiah (Bolkiah Mu'izzuddin Waddaulah, b.1946), one of the wealthiest men in the world, has been sultan since 1967.

#### 49 DEPENDENCIES

Brunei has no territories or colonies.

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# CAMBODIA

Kingdom of Cambodia

*Preahreacheanachakr Kampuchea*

**CAPITAL:** Phnom Penh

**FLAG:** The flag has a red center field with a white silhouette of the temple complex at Angkor Wat. The center field is bordered top and bottom by blue bands.

**ANTHEM:** *Nokoreach*, beginning "Heaven protects our King."

**MONETARY UNIT:** The new riel (CR) is a paper currency of 100 sen. CR1 = \$0.0002534 (or \$1 = CR3,946.00) as of May 2003.

**WEIGHTS AND MEASURES:** Both the metric system and traditional weights and measures are in general use.

**HOLIDAYS:** National Day, 9 January; New Year, April; Labor Day, 1 May; Feast of the Ancestors, 22 September; Independence Day, 9 November.

**TIME:** 7 PM = noon GMT.

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

Situated in the southwest corner of the Indochina Peninsula, Cambodia has an area of 181,040 sq km (69,900 sq mi), extending 730 km (454 mi) NE-SW and 512 km (318 mi) SE-NW. It is bounded on the NE by Laos, on the E and SE by Vietnam, on the SW by the Gulf of Thailand, and on the W, NW, and N by Thailand, with a total boundary length of 2,572 km (1,598 mi). Comparatively, the area occupied by Cambodia is slightly smaller than the state of Oklahoma. In 1982, the PRK signed an agreement with Vietnam on their mutual maritime frontier. A treaty delineating the land border was signed in December 1985.

Cambodia's capital city, Phnom Penh, is located in the southcentral part of the country.

## <sup>2</sup>TOPOGRAPHY

Cambodia is a country of forested mountains and well-watered plains. The central part of the country forms a gigantic basin for the Tonle Sap, or Great Lake, and the Mekong River, which flows down from Laos to the southern border with Vietnam. Between the Tonle Sap and the Gulf of Thailand lie the Cardamom Mountains and the Elephant Range, which rise abruptly from the sea and from the eastern plains. In the north, the Dangrek Mountains, 320 km (200 mi) long and 300 to 750 m (1,000–2,500 ft) high, mark the Thailand frontier. The short coastline has an important natural harbor, Kompong Som Bay (Chhâk Kâmpóng Saôm), where the port of Kompong Som (Kâmpóng Saôm, formerly Sihanoukville) is located.

The Mekong and the Tonle Sap dominate the life and economy of Cambodia. The Mekong overflows during the rainy season, deposits vast quantities of alluvial soil, and, backing toward the Tonle Sap, causes that lake to increase in size from about 2,590 sq km (1000 sq mi) to almost 24,605 sq km (9,500 sq mi).

## <sup>3</sup>CLIMATE

The climate is tropical, with a wet season from May through November and a dry season from December to April. Temperatures range from 10° to 38°C (68–97°F), and humidity is consistently high. Average rainfall varies from about 127 to 140

cm (50 to 55 in) in the central basin to about 508 cm (200 in) in the southwestern mountains.

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

Cambodia, covered in its mountainous areas with dense virgin forests, has a wide variety of plant and animal life. There are palm, rubber, coconut, kapok, mango, banana, and orange trees, as well as the high sharp grass of the savannas. Birds, including cranes, pheasants, and wild ducks, and mammals such as elephants, wild oxen, panthers, and bears abound throughout the country. Fish, snakes, and insects also are present in abundance.

## <sup>5</sup>ENVIRONMENT

Deforestation and the resulting soil erosion cause significant environmental problems in Cambodia. By 1985, logging activities, the clearing of the land for agricultural purposes, and the damage from the Vietnam war resulted in the destruction of 116 square miles of forest land. Between 1983 and 1993, the nation's forest and woodland were reduced by an additional 11.3% to 11.7 million ha. In 1995, there were only 9 million ha. The nation has 120.6 cubic km of renewable water resources with 94% used for farming activity and 1% used for industrial purposes. Most rural dwellers do not have access to pure water. Cambodia's cities produce 0.2 million tons of solid waste per year. Three-fourths of Cambodia's wildlife areas have been lost through the destruction of its forests, and strip mining for gems in the western part of the country poses an additional threat to the nation's biodiversity and wildlife habitats. Natural fisheries have been endangered by the destruction of Cambodia's mangrove swamps. As of 2001, 23 of Cambodia's mammal species and 18 of its bird species were endangered. Endangered species in Cambodia include 3 species of gibbon (pileated, crowned, and caped), several species of wild dog and wild cat, leopard, tiger, Asian elephant, Sumatran rhinoceros, Thailand brow-antlered deer, kouprey, giant catfish, Indian python, Siamese crocodile, and estuarine crocodile.

## 6 POPULATION

The population of Cambodia in 2003 was estimated by the United Nations at 14,144,000, which placed it as number 62 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 43% 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 2.40%, with the projected population for the year 2015 at 18,421,000. The population density in 2002 was 68 per sq km (176 per sq mi).

It was estimated by the Population Reference Bureau that 16% of the population lived in urban areas in 2001. The capital city, Phnom Penh, had a population of 938,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 4.2%. A great majority of the people live in rural areas, with 90% of the rural population living in the plains of the central third of the country.

Estimates of Cambodia's population vary with the assessment of the impact of the 1970–75 war and the millions killed in its tumultuous aftermath. At the war's end, in April 1975, the population of the capital, Phnom Penh, had swollen to nearly 3 million because of a mass influx of refugees. The new government immediately embarked on a forced evacuation of all urban areas, and by March 1976, only 100,000–200,000 were thought to remain in Phnom Penh. After the installation of the PRK in 1979, the population of Phnom Penh began to increase. Other cities include Batdambang, Kampong Cham, Kampot, Siemreab, Kampong Saom, and Kracheh.

## 7 MIGRATION

The first migration of persons in independent Cambodia took place during the 1950s and 1960s, when ethnic Chinese were permitted to settle in the mountainous and wasteland areas and cultivate land that otherwise would have remained useless. After 1970, about 200,000 Vietnamese living in Cambodia were repatriated to the RVN, ostensibly as a security measure. With the insurgent victory in April 1975, most of the country's remaining Vietnamese were reported to have emigrated to Viet Nam. In addition, thousands of refugees, including many former officials and military personnel, fled across the Thai border or were evacuated by US aircraft.

The new government launched a sweeping nationwide resettlement program under which some 2.5–3 million persons were moved from Phnom Penh and other cities into the countryside, where they were organized into work brigades. The food shortage in rural areas was only slightly less critical than in the cities, and widespread starvation led to the deaths of probably over one million people during the transition. After the installation of the PRK in January 1979, continued fighting and political instability resulted in a new exodus of refugees. About 630,000 Cambodians left the country between 1979 and 1981, of which about 208,000 were able to resettle in other countries, including 136,000 in the United States. Most of the rest remained in camps on the border with Thailand, but they were repatriated to Cambodia in May 1993.

Between 1979 and 1987 there was a new migration of ethnic Vietnamese into Cambodia. Official sources insisted that the total number was under 60,000, and was comprised, for the most part, of residents who had left in the early 1970s, but opposition groups contended that the number totaled over 500,000 and was intended to consolidate Vietnamese control over the country.

In 1997, the conflicts between government forces and the National Army of Democratic Kampuchea (Khmer Rouge) drove rural populations from their homes. In 1997 and 1998, UNHCR assisted up to 60,000 Cambodian refugees who had fled fighting in Northwest Cambodia. Also in 1997, the UNHCR

helped several thousand ethnic Vietnamese fisher families return to their Cambodian homes after having camped on the Vietnam border. Following the peace settlement between the government of Cambodia and resistance forces in December 1998, the repatriation of approximately 36,000 refugees remaining in camps in Thailand was rapidly implemented. By April 1999, all of the camps were closed, and by June 1999 some 47,000 refugees had returned home. The net migration rate for Cambodia in 2000 was 0.7 per 1,000. In that year there were 211,000 non-citizen residents living in Cambodia. The government continues to view the emigration level as too high.

## 8 ETHNIC GROUPS

Over 90% of the entire population in 1999 were ethnic Khmers, descendants of the original population in the area. The largest minority groups were the Vietnamese, estimated at 5% of the population, and the Chinese, estimated at 1%. Groups designated as other comprised the remaining 4% of the population. National minorities are the Cham and a number of small tribal groups.

## 9 LANGUAGES

Khmer, the national language, is spoken by most inhabitants. Unlike Thai or Vietnamese, Khmer is a non-tonal language; most words are monosyllabic. French, the second language, is often used in commercial and official circles. The Vietnamese and the Chinese use their own languages, as do other minorities. English is also spoken.

## 10 RELIGIONS

Buddhism has been the state religion since 1989 and according to a 2002 report, about 93% of the inhabitants practice either Hinayana or Theravada Buddhism. It is believed that some practices of animism are adhered to by most people as well. The Chinese and most Vietnamese in Cambodia practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, ancestor worship, and animism. In 2002, there were about 700,000 Muslims, representing the four branches: Shafi, Wahabi, Iman-San, and Kadiani. Less than 1% of the population is Christian, with over 100 separate organizations represented. There are also small groups of the Vietnamese Cao Dai religion and the Baha'i Faith.

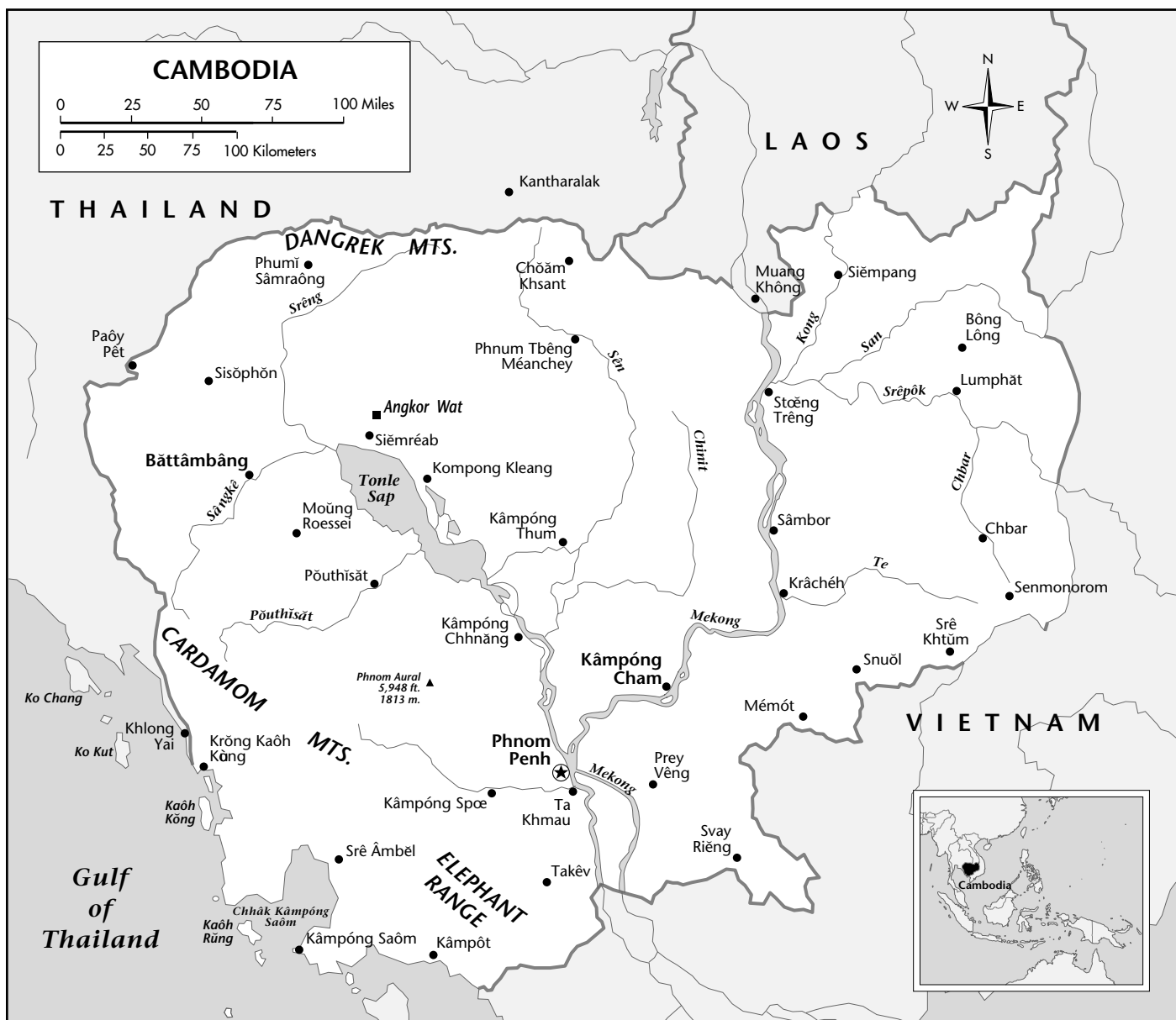
The government that took power in 1975 virtually abolished Buddhism, defrocking some 70,000 monks and turning pagodas into warehouses. Islamic spokesmen have claimed that 90% of Cambodia Muslims were massacred after 1975. Of some 6,000 Roman Catholics left in Cambodia at the time of the revolution, only a few survived. All mosques and Catholic churches were razed. The PRK regime that came to power in 1979 permitted the return of religious practice, and hundreds of pagodas were reopened. In insurgent areas controlled by the Khmer Rouge, Buddhism was allowed after 1979, and in non-Communist resistance camps there reportedly was full freedom of religion.

As of 1999 the constitution provides for freedom of religion, and the government reportedly respects this right in practice.

## 11 TRANSPORTATION

Land transport facilities suffered wholesale destruction during the 1970–75 war. Cambodia's first railway, a 385-km (239-mi) single track from Phnom Penh to Paoy Pet, was badly damaged in the fighting; moreover, a just-completed 262-km (163-mi) line from Phnom Penh to Kampong Sam was also disabled. The line to Kampong Sam was restored in November 1979, and a Phnom Penh-Battambang railway was reopened in February 1980. Rail service has been periodically disrupted by guerrilla operations. In 2002, rail trackage totaled 603 km (375 mi).

All major cities and towns are connected with Phnom Penh by highway, and from there roads connect to Vietnam, Laos, and Thailand. The US-built 214-km (133-mi) Khmer-America



LOCATION: 102°31' to 108°E; 10° to 15° N. BOUNDARY LENGTHS: Laos, 541 kilometers (336 miles); Vietnam, 1,228 kilometers (763 miles); Gulf of Thailand coastline, 443 kilometers (275 miles); Thailand, 803 kilometers (499 miles). TERRITORIAL SEA LIMIT: 12 miles.

Friendship Highway links Phnom Penh with Kampong Sam. As of 2002, Cambodia had an estimated 35,769 km (22,226 mi) of main roads, of which only 4,165 km (2,588 mi) were paved; most are in poor condition.

The Mekong is the most important inland waterway. Total length of navigable waterways is 3,700 km (2,300 mi) for craft drawing 0.6 meters, but only 282 km (175 mi) for craft with a draft of 1.8 meters. The river port of Phnom Penh has been upgraded. Until 1975, Saigon was the major transshipment point for outgoing and incoming Cambodian goods; the opening of the deepwater port of Kompong Som made Cambodia largely independent of Vietnam for oceangoing shipping. In 2002, Cambodia's merchant fleet totaled 404 ships (1,000 GRT or over) with a capacity of 1,889,404 GRT. The fleet includes ships of 44 countries under a flag of convenience registry.

Cambodia had 20 airports in 2001, 5 of which had paved runways. The main airport is at Phnom Penh; there are regular

flights between Phnom Penh, Hanoi, Vientiane, and Ho Chi Minh City.

## 12 HISTORY

Most Cambodians are descendants of the Khmers, who in the 6th century established the Indian-influenced Angkor Empire, and for the next 900 years ruled the area of present-day Cambodia. According to legend, the founder of the Khmer dynasty was Kampu Svayambhuva, from whose name "Kampuchea" derives. From the 10th to the 14th century, after years of military expansion, the Khmers reached their apogee. Their empire extended over most of Southeast Asia (from central Vietnam south-west into the Malay Peninsula, and from Thailand north to the border of Burma, now known as Myanmar). Angkor, the capital city, was a flourishing complex of great temples, palaces, and shrines. In the subsequent centuries, however, continuing attacks by the Thai (who captured Angkor in 1431) and the Vietnamese weakened the empire, and by the end of the 18th

century much of Cambodia had become a Thai and Vietnamese condominium. In 1863, the king of Cambodia placed the country under French protection. The French, joining Cambodia to Laos and Vietnam to form French Indochina, ruled the protectorate until the end of World War II. Cambodian nationalism received its greatest impetus during the World War II period, while Japan controlled Indochina. King Norodom Sihanouk, who had ascended the throne in 1941 and had been held a virtual prisoner under the Japanese occupation, proclaimed Cambodia independent in 1945, but yielded before a temporary resumption of the French protectorate, enforced by Allied troops, which occupied Phnom Penh. Cambodia became a constitutional monarchy on 6 May 1947, and was granted nominal independence within the French Union on 9 November 1949. King Sihanouk, meanwhile, had assumed leadership of Cambodia's growing nationalist movement. On 17 October 1953, during the height of the Franco-Indochinese war, he was granted full military control of his country by France. Sihanouk, a skilled politician, abdicated in March 1955 in favor of his father and mother, King Suramarit and Queen Kossamak, and then emerged as prime minister with the unanimous support of the national legislature. King Suramarit died on 31 April 1960, but Prince Sihanouk, although retaining the title of chief of state, did not return to the throne. During the Franco-Indochinese war, Communist-controlled Viet-Minh troops from Vietnam operated in Cambodia (1954), and gave support to a small Khmer Communist movement.

The Geneva agreements of July 1954, which ended the Franco-Indochinese war, secured the withdrawal of French and Viet-Minh troops from Cambodia and the surrender of most of the Khmer rebels. During the next 15 years, Sihanouk sought to keep Cambodia neutral in the deepening Vietnam conflict. This proved increasingly difficult, however, as the National Liberation Front (also known as the Viet-Cong) used Cambodian border areas as bases from which to launch attacks on the Republic of Vietnam (RVN, or South Vietnam), and as the United States in 1969 launched an undeclared air war against the guerrilla sanctuaries. On 18 March 1970, Marshal Lon Nol, prime minister and army chief, overthrew the chief of state, Prince Sihanouk, while the prince was on a visit to the USSR; the right-wing coup ended 1,168 years of rule by Khmer monarchs. Sihanouk thereupon took up residence in Beijing, where, on 5 May, he announced formation of the Royal Government of National Union of Kampuchea (GRUNK) under the political auspices of the National United Front of Kampuchea. In the interim, on 30 April, US president Richard M. Nixon announced an "incursion" into Cambodia of 30,000 US and 40,000 Vietnamese troops, with the object of destroying their opponents' strongholds along the Vietnam border. The operation was terminated on 30 June with its military objectives apparently unfulfilled, and bombing of the region continued, to devastating effect on Cambodia's economy.

Formal diplomatic relations with the United States, severed by Sihanouk in 1965, were resumed on 2 July 1970, and Sihanouk was condemned to death (in absentia) three days later. On 9 October, the Lon Nol government in Phnom Penh abolished the monarchy and changed Cambodia's name to the Khmer Republic. In elections held during June 1972, Lon Nol was elected president of the republic. Pressures from GRUNK insurgents continued to mount, especially following the conclusion of a cease-fire in Vietnam in January 1973 and the withdrawal of the last US troops from that country in March. US aid to the Lon Nol government had been substantial, totaling \$1.18 billion in military supplies and \$503 million in economic assistance for the whole of the 1970-75 period, but with most of the aid concentrated in the early years of direct involvement. With the reversal of US policy in Vietnam, however, support for the Khmer Republic began to taper off, and by the start of 1975, the Lon

Nol government was plunged into a struggle for survival. In January, GRUNK military forces, generally referred to as the Khmer Rouge, launched a major offensive aimed at gaining control of the Mekong River and isolating Phnom Penh. Fierce and costly fighting ensued over the next three months, with the United States undertaking a massive airlift to Phnom Penh in February to fend off starvation and military collapse. On 1 April, the strategic Mekong ferry crossing at Neak Luong fell to the insurgents, clearing the way to a direct, final assault on the capital. On that day, Lon Nol fled the country, to be followed by much of the ruling hierarchy. On 17 April, the Khmer Republic government officially capitulated to GRUNK forces, commanded by Khieu Samphan.

The GRUNK government reported in March 1976 that the war had resulted in 1 million casualties, including 800,000 killed. On 5 January 1976, the country was officially renamed Democratic Kampuchea (DK). On 20 March, the first general elections were held for a new 250-member People's Assembly. The Assembly on 14 April named Khieu Samphan chairman of the State Presidium, replacing Prince Sihanouk, who had returned to the country in September 1975, as head of state. Pol Pot was named prime minister. Even before these political reforms were undertaken, the GRUNK government had undertaken a massive—and perhaps unprecedented—reorganization of the country's economic and social life. As an initial step, the new government ordered the near-total evacuation of Phnom Penh, where food, shelter, and medical resources had been stretched to the limit by the press of some 2.5 million refugees. The country was thereupon plunged into almost complete isolation, even from its neighbors in Vientiane and Hanoi. Currency was abolished, social relations completely overhauled, religion almost eradicated, education suspended, and families divided. From two million to three million people may have died from starvation, exhaustion, disease, or massacre under the Pol Pot (Cambodian Communist leader Saloth Sar) regime.

Meanwhile, tensions with Vietnam (traditional enemy of Cambodia until 1976 and again after 1989) were growing, and there were border clashes during 1977 and 1978. In December 1978, Vietnam invaded Cambodia with a force of more than 100,000 troops; by January 1979, they had installed a pro-Vietnamese government, the People's Republic of Kampuchea (PRK), headed by Heng Samrin, a former division commander in the GRUNK army. The PRK had to contend with resistance from the very beginning, and the Khmer Rouge rebels, who had fled to the jungles in the west and south, continued to harass the government despite Vietnamese counteroffensives. In order to improve its international standing, the Khmer Rouge began in 1981 to pursue a united-front strategy; Pol Pot, branded with the 1975-79 atrocities, reportedly withdrew into the background, and Khieu Samphan, supposedly the most moderate of the Khmer Rouge leaders, emerged as chief spokesman. In 1982, the Khmer Rouge formed the Coalition Government of Democratic Kampuchea (CGDK), with two non-communist factions led by Prince Sihanouk and a former politician, Son Sann. The fighting during 1982-83 reflected a pattern of PRK and Vietnamese dry-season offensives alternating with an upsurge of guerrilla operations during the wet season. Militarily, the PRK and Vietnam appeared firmly in control at the end of 1987; diplomatically, however, the PRK had won recognition only from Vietnam, the former USSR, and their allies, with most nations joining the United States and China in giving qualified support to the CGDK. In March 1986, an eight-point plan to settle the Cambodian conflict was issued by the leaders of the coalition.

Progress towards a peaceful settlement had an uneven course in 1988. Prince Sihanouk resigned, retracted his resignation, and resigned again as president of the Democratic Kampuchean Government-in-exile. Informal meetings in Indonesia, one in July shunned by Prince Sihanouk and the other in October ignored by

the Khmer Rouge, made no progress on peace plans. However, a subsequent announcement supported the creation of an international peacekeeping force. A conciliatory statement made in August of 1988 indicated the Khmer Rouge was ready to reduce its armed forces to the level of the other Cambodian factions. Vietnam announced the repatriation of 50,000 troops from Cambodia in 1988 and the complete withdrawal of troops by late 1989, or early 1990. In January of 1989 Heng Samrin pledged that, if a political settlement could be achieved, all Vietnamese troops would be repatriated by September. Further encouraging gestures were made by Vietnam, China and Thailand: Thai and Vietnamese officials met in Hanoi; Vietnamese and Chinese ministers met in Beijing; and, Thailand abandoned its policy of isolating the Heng Samrin government and invited talks with them. In 1989 Prince Sihanouk resumed leadership of the Democratic Kampuchean Government-in-exile, later resigning from leadership of the National Front for an Independent, Neutral, Peaceful and Co-operative Cambodia (FUNCINPEC). In protest of Thailand's contact with the Heng Samrin government, Sihanouk refused to attend a second "informal meeting" in Jakarta. This meeting still failed to resolve two outstanding major issues: the make-up of an international force to oversee troop withdrawals and the composition of an interim government before elections. As a further sign of its commitment to change, in April 1989 an extraordinary session of Cambodia's National Assembly ratified amendments to the Constitution: the name of the country was changed to the State of Cambodia (SOC), a new national flag, emblem and anthem were introduced; Buddhism was reinstated as the state religion; and the death penalty abolished. Hun Sen met in Bangkok with the Thai Prime Minister who appealed for a cease-fire among the four Cambodian factions [The government of the Kampuchean People's Revolutionary Party (KPRP) installed by the Vietnamese (the Heng Samrin government), and three antigovernment groups that comprised the umbrella organization, the national Government of Cambodia (NGC): FUNCINPEC, the Khmer Rouge, and the Khmer People's National Liberation Front (KPNLF)]; the Khmer Rouge rejected this suggestion. In July 1989 Hun Sen and Prince Sihanouk met in Paris prior to the Paris International Conference on Cambodia (PICC). In September 1989 Vietnam completed the timely withdrawal of its forces from Cambodia. Throughout 1988 and 1989 the Khmer Rouge forces continued to make military gains in Cambodia. The UN adopted a resolution supporting the formation of an interim government that included the Khmer Rouge, although past atrocities of the Khmer Rouge were alluded to indirectly.

In January 1990 the UN Security Council approved an Australian peace initiative—UN monitored cease-fire, the temporary assumption of executive powers by the UN secretary-general, formation of a national supreme council, and the holding of internationally supervised elections. Prince Sihanouk resigned as Supreme Commander of the High Council of National Defense and leader of the resistance coalition, but retained his position as President of Democratic Kampuchea. In February 1990 the Government-in-exile of Democratic Kampuchea was formally renamed by Sihanouk as the National Government of Cambodia and restored the traditional flag and anthem. This change distanced the coalition from association with the Khmer Rouge's former regime, Democratic Kampuchea (DK). (The DK had been named the Khmer Rouge by Sihanouk.) In a third meeting held in Jakarta in February the four Cambodian factions as well as representatives of Vietnam, Laos, ASEAN, France, and Australia met and agreed to the main principles of the UN plan. Prince Sihanouk resumed the presidency of the resistance coalition in May and in June he and Hun Sen signed a conditional cease-fire in Bangkok. In June a meeting in Tokyo was attended by representatives of all four Cambodian factions including Hun Sen and Prince Sihanouk. The Khmer Rouge, however, refused to sign

a cease-fire agreement and proposed that each faction should have equal representation on a supreme national council. Prince Sihanouk offered support for the Khmer Rouge proposal, despite his previous agreement with Hun Sen; the discussions collapsed. In June and July reformist political allies of Hun Sen were dismissed or arrested for alleged attempts to establish a new party. Supporters of conservative Chea Sim, Chairman of the National Assembly, replaced them. Also in July the United States withdrew its support for the National Government of Cambodia's occupation of Cambodia's seat at the UN and indicated willingness to provide humanitarian assistance for the Phnom Penh regime. The UN Security Council in late August endorsed a plan for a comprehensive settlement in Cambodia: UN supervision of an interim government, military arrangements for the transitional period, free elections, and guarantees for the future neutrality of Cambodia. In addition, a special representative of the UN secretary-general would oversee the proposed United Nations Transitional Authority in Cambodia (UNTAC). The UN would also assume control of government ministries. Both China and the former USSR subsequently pledged to cease providing supplies of military equipment to their respective allies, the Khmer Rouge and the Phnom Penh regime. In reversals of previous policy the United States announced it would hold talks with the Phnom Penh regime, and the USSR declared that it would hold talks with Prince Sihanouk. The four Cambodian factions accepted the UN proposals at an "informal meeting" in Jakarta in September 1990. In addition, they agreed to the formation of the Supreme National Council (SNC), with six representatives each from the National Government of Cambodia and Phnom Penh regime. The SNC was to occupy the Cambodian seat at the UN General Assembly. At its first meeting in September the SNC failed to elect a chairman. The Khmer Rouge heightened military action in the northern provinces. Even as the final draft of the peace plan was prepared by the UN Security Council the Phnom Penh regime continued to oppose the principal provisions of the plan. In December all 12 members of the SNC attended another meeting of the PICC and all factions endorsed most components of the UN plan.

The SOC replaced three of its six SNC members in February 1991. In May a temporary cease-fire was agreed upon by the four factions in order to facilitate discussions. In June the Khmer Rouge refused to discuss SNC leadership issues, requiring the Phnom Penh regime's prior acceptance of the full terms of the UN peace plan, and the Khmer Rouge refused to comply with a proposed extension of the temporary cease-fire. Prince Sihanouk became an ordinary member of the SNC chairing a meeting in Thailand where all four factions resolved several issues: implementation of an indefinite cease-fire, pledges not to receive further foreign military aid, approval of a flag and anthem for the SNC, and establishment of Phnom Penh as the headquarters for the SNC. Prince Sihanouk was elected to the chairmanship of the SNC and resigned as leader of the resistance coalition and as President of the National Government of Cambodia. His replacement in both positions was Son Sann. From August through October the SNC worked out the details of the armed forces reduction and election procedures. Elections would be held to establish a constituent assembly comprised of 120 seats, which would subsequently become a legislative assembly. The electoral system would be proportional representation based on the 21 provinces. The constituent assembly would be empowered to adopt a new constitution. In October the SOC released hundreds of political prisoners including associates of Hun Sen arrested in 1990 for starting a political party. The Kampuchean (or Khmer) People's Revolutionary Party (KPRP), the communist party aligned with the Vietnamese communist movement, changed its name to the Cambodian People's Party (CPP), removed the hammer and sickle from the party emblem, and replaced Heng Samrin as Chairman of the Central Committee with the

conservative Chea Sim. Reformist Hun Sen was elected Vice-Chairman of the CPP.

On 23 October 1991 what was hoped to be an end to thirteen years of war in Cambodia was achieved with the signing of the Comprehensive Political Settlement for Cambodia by the four Cambodian factions and 19 participating countries. The agreement called for the creation of a United Nations Transitional Authority in Cambodia (UNTAC) to carry out the peacekeeping operations which included the demobilization of 70% of each faction's army and enforcement of a cease-fire; verifying the withdrawal of foreign forces; administering the country until an election in 1993 by taking over certain portfolios; assuring that human rights were maintained; and the repatriation of 600,000 refugees and internally displaced people. In November a threat to the tenuous peace process occurred when a mob attacked Khmer Rouge leaders Khieu Samphan and Son Sen in a Phnom Penh villa. The SNC government's response was slow, and it was alleged that Hun Sen sanctioned this incident and that Vietnamese officials were involved in it. In December violent student demonstrations protesting against high-level corruption and in support of human rights were suppressed by the armed forces and in later demonstrations several protestors were killed. Several high-level government officials were dismissed based on the corruption charges.

In January 1992 the four factions approved the formation of political associations and the promotion of freedom of expression. However, on 22 January Tea Bun Long, minister for religious affairs and an outspoken critic of corruption was killed, and on 28 January Oung Phan, organizer of a new political party emphasizing anti-corruption was shot, but survived. These and other arrests, threats, and disappearances were viewed as intimidation by the secret police geared at undermining the peace process and free elections, and served to intimidate government critics. Yasushi Akashi, the Japanese UN Under Secretary-General for Disarmament Affairs, was appointed as the UN Special Representative to Cambodia in charge of UNTAC. The UN Security Council authorized mine clearing operations, the dispatch of a 22,000 member peace keeping force to establish UNTAC, at an estimated cost of \$2 billion.

In September 1991 approximately 5% of the Cambodian population was in refugee camps along the Thai-Cambodian border, 340,000 refugees in border area camps, and another 190,000 refugees within Cambodia. The plan was to move refugees to transit camps in Thailand, then on to six reception centers in Cambodia, and finally to villages. In October the Khmer Rouge began to forcibly repatriate tens of thousands of civilians in UN refugee camps to areas under its control in Cambodia. International reaction prevented the Khmer Rouge from forcibly repatriating inhabitants of the Khmer Rouge controlled camp, Site 8, just one of the eight refugee camps. The UNTAC refugee repatriation program began in March, in spite of cease-fire violations between the Khmer Rouge and the State of Cambodia forces. Throughout 1992 the Khmer Rouge denied free access to the zones it controlled, refused to comply with the disarmament phase, violated the cease-fire agreement, played upon long-standing racial/ ethnic tensions by contending that Vietnamese soldiers were concealed in Cambodia, complained that the UN peacekeepers were not impartial to them, failed to attend meetings, and demanded the dismantling of the Phnom Penh regime as a precondition for the implementation of the peace accords, amongst other demands.

In May 1992 the Khmer People's National Liberation Front (KPNLF), the political and military party formed by Son Sann for the purpose of resisting the Vietnamese, was transformed into a political party called the Buddhist Liberal Democracy Party (BLDP) and still headed by Son Sann. FUNCINPEC also became a party, headed by Prince Ranariddh. At a Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia held in

Tokyo in June, the application of economic sanctions against the Khmer Rouge was considered and 33 donor nations and 12 non-governmental organizations attending the conference pledged \$880 million to finance the peacekeeping operation. In August Akashi, the head of UNTAC, approved elections, and the registration of parties began. He also affirmed that the elections would proceed without the participation of the Khmer Rouge if it continued to refuse to co-operate. The demands of the Khmer Rouge were impossible to meet and were viewed as efforts to gain territory in order to increase its representation in the proposed national assembly, perhaps with as much as 35% of the population (a tactic laid down by Pol Pot in a 1988 speech). In September the Khmer Rouge made two new demands: the resignation of Akashi and a redrawn border between Cambodian and Vietnam. This latter demand referred to territory allegedly annexed by Vietnam that would make the elections incomplete if not returned to Cambodia. The Khmer Rouge protested an electoral law drafted by UNTAC that enfranchised citizens aged more than 18 years whose parents or grandparents were born in Cambodia, effectively permitting Vietnamese immigrants to take part in the election.

October 1992 UNTAC began voter registration. The Khmer Rouge boycotted voter registration and escalated destruction of bridges and roads, effectively cutting off its territory in the northeast from the rest of the country. The UN Security Council set a November deadline for the Khmer Rouge's compliance with the terms of the peace accord, but eventually extended the deadline to 31 January 1993 as the Khmer Rouge's last chance to participate in the elections. The Security Council also approved an embargo on supplies of petroleum products to the Khmer Rouge and a ban on timber exports (a principal source of income for the Khmer Rouge). The Khmer Rouge announced the formation of the Cambodian National Unity Party to contest the elections on the day the UN resolution was adopted. Ethnic and racial tensions were increasing as the Khmer Rouge incited and escalated actions against the Vietnamese based on deep-rooted Cambodian sentiments towards the Vietnamese. In December the KPNLF joined the Khmer Rouge in the ethnic cleansing of the "Vietnamese germs." Six members of the UN peacekeeping forces were seized and held for a few days by the Khmer Rouge in December 1992.

In January Prince Sihanouk ceased cooperation with UNTAC and suggested that a presidential election be held prior to the legislative election, but in February he reversed his position. Voter registration was completed in February; registered voters numbered 4.5 million and 20 political parties were registered. The election was set for May 23-25, 1993. The CPP intimidated its political rivals with attacks and stopped the gradual expansion of the Khmer Rouge into Phnom Penh government territory. In a dry season offensive the SOC attacked three of four of the Khmer Rouge's most important zones.

In early 1993 the Khmer Rouge refused to disarm and attacked UN offices, cars, helicopters, and personnel. In addition to the Khmer Rouge's accusations of collusion between UNTAC and the SOC, the presence of the UN forces was a source of growing tension and dissatisfaction in Cambodia. Inflation, official corruption, and crime were increasing and UNTAC's presence and policies were blamed. The Khmer Rouge issued their own currency, thus emphasizing steps toward further partition. In a secret speech a year earlier (6 February 1992), Pol Pot had set out an incremental approach by which the Khmer Rouge could gain popular strength which he considered more important than land: develop local autonomy; set up a money economy with their own banks which would hold the surplus earnings of farmers (projected to be 30% of earnings); distribute land, sell land in order to support the army, and continue to fight the "yuon" (savage), or Vietnamese. As the Khmer Rouge again refused to disarm and take part in the elections, it appeared to follow this

program as it also increased attacks on Vietnamese fishermen and their families, killing 34 and injuring 29 in March at the floating village of Chong Kneas. Furthermore, citing its allegations that UNTAC colluded with the Vietnamese aggressors and rubber stamped the Vietnamese occupation, the Khmer Rouge refused to cooperate with the peace process. The UN goal was to have all refugees back in Cambodia by mid-April for elections. By 19 March 330,000 refugees were repatriated. A cash inducement had been added as incentive (\$50/adults and \$25 for children), and this rapidly accelerated the process. Roughly 87% had taken the cash option, nearly one-third going to Phnom Penh; 80–85% of the returnees chose areas under Phnom Penh government (Hun Sen) control, (about 85% of the country's) territory; 10% chose areas controlled by the Khmer People's National Liberation Front; 2% chose zones controlled by forces loyal to Prince Sihanouk; and 1% chose Khmer Rouge areas. In April the Khmer Rouge closed its office in Phnom Penh and slipped out of the city; it pledged to prevent the planned elections. A Japanese UN worker was killed and eventually 30 of the 460 volunteers for the election work resigned. In May the Khmer Rouge mounted its boldest offensives yet with targets defined for maximum political impact including major cities; they took briefly the Siem Reap airport. Under these pressures UNTAC abandoned 400 of its 1800 polling places.

The election took place May 23–28, 1993; four million Cambodians or 85% of those registered voted. FUNCINPEC won the election with 45% of the vote, or 58 of 120 seats in the constituent assembly; the CPP took 38% of the votes, or 51 seats in the assembly; the BLDP had over 3% of the votes, which gave them 10 seats; and, MOULINAKA (Movement for the Liberation of Kampuchea, a pro-Sihanouk group formed in 1979 by Kong Sileah, considered an offshoot of FUNCINPEC) took one seat. The constituent assembly had three months within which to draft a constitution and form a new government. To the CPP its political defeat was an unacceptable surprise and it demanded a revote and threatened riots; the Khmer Rouge denounced the CPP for contesting the election. The CPP's 51 assemblymen were technocrats and education officials (people who never wielded power within the party); this supported the belief that the CPP paid only lip service to constitutional arrangements as it maintained its grip on power. The CPP's two leaders, hardliner Chea Sim and reformer Hun Sen, were foci of an internal struggle. In a move towards cooperation FUNCINPEC leader Prince Norodom Ranariddh and CPP Primer Minister Hun Sen served as co-chairmen of the government, and control of the major ministries was divided, with FUNCINPEC getting the finance and foreign affairs portfolios while the CPP retained the Information Ministry. The CPP had 200,000 armed forces and 40,000 national police; FUNCINPEC's armed forces numbered 5,000. In August for the first time the three government factions, royalist FUNCINPEC, former Phnom Penh ruling regime CPP, and the BLDP, agreed to joint military operations. The Khmer Rouge would not be allowed to enter the political mainstream until it agreed to unconditionally join the unified armed forces and open up areas under its control, estimated to be 20% of Cambodia.

Cambodia's new constitution was adopted on 21 September 1993. Prince Norodom Sihanouk was crowned king, resuming the title first bestowed on him in 1941. In an attempt to restore central control of the economy to the government on December 28 the National Assembly passed a national budget and financial laws. These new laws stripped individuals of the power to collect taxes independently and by law all revenue would be channeled to the national treasury. Minister of Economics and Finance Sam Rainsy set about to root out official corruption and centralize Cambodia's budget. The entrenched businesses protested, but Rainsy received the backing of Sihanouk and international lending institutions. The two co-prime ministers, First Premier

Norodom Ranariddh and Second Premier Hun Sen, asked King Sihanouk for sanction to fire Rainsy, but instead received a statement praising Rainsy, who was becoming a popular hero. King Sihanouk also urged the government to grant total freedom to the domestic and foreign press.

Within the SOC there was significant difference of opinion on how to deal with the Khmer Rouge. FUNCINPEC's Ranariddh counted on diplomacy to isolate the Khmer Rouge while using development aid and investment for poverty reduction and infrastructure improvement. On the other hand, many of his counterparts in Hun Sen's CPP sought a military solution to the Khmer Rouge problem. There was consensus, however, that Cambodia should look to Malaysia's experience with the Malayan Communist Party, which consisted of marginalizing the Malaysian communists. UNTAC's failure to disarm the Khmer Rouge was a burden for the new government. The Khmer Rouge was emerging with its prestige enhanced, territory expanded, and weaponry intact. Cambodia had been critical of the role Thailand played in supporting the Khmer Rouge, and renewed its appeals to Thai neutrality. The Khmer Rouge presence benefited Thailand by aiding in securing its border, and with lucrative trade in gems, timber, and armaments. The Khmer Rouge radio station was located inside Thai territory. In early 1994 while the new government sought to consolidate and to gain control of the economy, military activity continued between government forces and the Khmer Rouge. Cambodian currency, the riel, was stabilized and tax revenues increased. International donors pledged an extra \$773 million in aid. Corruption and a free press were major issues. King Sihanouk was seriously ill with cancer. The government captured Pailin, official headquarters of the Khmer Rouge on 19 March, but the Khmer Rouge retook it one month later. The dry season campaign by the government against the Khmer Rouge was a failure. Both sides were scheduled to resume peace negotiations on May 2–7. The Khmer Rouge looked to its military successes as leverage for a power sharing compromise with the government; Sihanouk sought to make deals that gave the Khmer Rouge some key posts in return for laying down its arms and opening areas under its control. One year after the elections major problems were security, corruption, and the economy. Security issues included demobilized unpaid soldiers turning to banditry, new mines being laid, Westerners being kidnapped, villagers fleeing the fighting, and closed schools. It was unsafe to farm. Corruption included national assembly members keeping their seats while serving in other branches of government; parties swelling the number of senior officers and civil servants as they vied to match each other in number and in rank; and the National Assembly voting themselves a raise equal to 100 times that of a typical soldier. The economy was undermined by continuing military activity, and privatization was stalled by lack of capital and skilled workers, and political instability.

On 3 July 1994 there was a coup attempt. Less than 300 troops were involved and it was directed against FUNCINPEC, and possibly Hun Sen as well, by hard line figures at the highest levels of the CPP attempting to take over the government. After the coup attempt the National Assembly voted to outlaw the Khmer Rouge and seize its assets, a move that was partly directed at Thailand. The Khmer Rouge's response was to announce the formation of a parallel government, with its headquarters in northern Cambodia and Khieu Samphan as president.

In July 1994, it was estimated that 55,000 Cambodians were again fleeing Khmer Rouge attacks in the western provinces. For the first time since the 1970s, the United States provided military aid to Cambodia. The need to remove the land mines infesting the fields of Cambodia became a high priority. Mines may have inflicted more wounds than any other weapon, and Cambodia has the world's highest percentage of physically disabled persons. As foreign advisors sought to strengthen the country's human



rights laws, ethnic considerations were raised. Cambodia's constitution fails to guarantee basic rights for racial groups other than ethnic Cambodians. The definition of Cambodians does include ethnic minority Chams and Chinese, but excludes ethnic Vietnamese.

The Khmer Rouge began to weaken in 1995, with mass defections of guerrilla fighters. The government remained worried by the hard core of dedicated Khmer Rouge rebels and their leaders, who remained at large in northern and western strongholds. Tensions continued within the fragile coalition government, with the CPP fighting off royalist political movements wherever they cropped up. There were also factional disputes within each of the coalition parties. Sam Rainsy's role as an opponent of foreign aid to Cambodia's "undemocratic" government earned him the condemnation of FUNCINPEC and the CPP. The Khmer National Party, formed by Sam Rainsy, was officially unrecognized. Internal rivalries essentially disbanded the government's third partner, the Buddhist Liberal Democratic Party.

Marginalization of the Khmer Rouge continued in 1996, as the group split between the leadership of ailing Pol Pot and a breakaway faction headed by Ieng Sary. In late 1996, Ieng Sary received a royal pardon, and his force became the object of courtship by CPP and FUNCINPEC. The government parties sought the votes and arms of Ieng Sary's supporters, plotting against each other in the process. This jockeying for position, accompanied by political violence and rumors of coups, continued into 1997.

In February 1997, FUNCINPEC's Ranariddh began an alliance with Sam Rainsy in strong opposition to Hun Sen's CPP. Hun Sen announced in March that he would seek to amend the constitution to prevent members of the royal family from involvement in politics, a direct hit at Ranariddh, Prince Sihanouk's son. Hints of negotiations between Ranariddh and the Khmer Rouge fueled Hun Sen's fears about his government "partner." A demonstration on 30 March, by Sam Rainsy's supporters, was attacked with hand grenades, which killed several protesters and wounded scores. The violence and tensions came to a head on 2 July, with open fighting between forces loyal to FUNCINPEC and CPP. A brief coup d'état set up Hun Sen as the sole power in charge. Ranariddh fled Cambodia and Hun Sen's forces killed many of Ranariddh's party leaders and supporters in the days immediately following the coup.

Hun Sen moved to establish CPP legitimacy, with the party winning a flawed national election in July 1998 with 41.4% of the vote to FUNCINPEC's 31.7%. Ranariddh was able to return as an opposition leader, and he, along with Sam Rainsy, whose party gained 14.3% of the vote, condemned the election as rigged. Foreign aid, suspended due to the coup, resumed. Throughout 1998, the Khmer Rouge continued to disintegrate, as Pol Pot, the architect of their genocidal regime died on 15 April, and other leaders surrendered or were captured.

With the entire top echelon of living Khmer Rouge leaders in custody, Cambodian government concerns from 1999 through 2001 centered on how to bring them to justice. Hun Sen's preference was for a series of trials conducted within Cambodia's own legal system, while the UN, fearing mere "show trials," called for an international tribunal. Compromises involving foreign judges participating in the Cambodian trials were proposed.

In August 2001, King Sihanouk signed legislation creating a special tribunal to prosecute the Khmer Rouge members responsible for the deaths of an estimated 1.7 million people through execution, torture, starvation, and hard labor. The trials were to be presided over by three Cambodian judges and two foreign judges, but further negotiations with the UN were necessary to finalize the details of the court. The UN insists that international standards of justice are met for the Khmer Rouge

leaders living freely in Cambodia. In February 2002, the UN concluded that the independence, impartiality, and objectivity of the proposed court could not be guaranteed, and pulled out of the negotiations. The Cambodian government indicated it would proceed with plans for the tribunal, with or without support from the UN. The issue of the trials is divisive in Cambodia, with some fearful that they will reopen old wounds and set the country back on the path of civil war. In December 2002, the UN passed a resolution authorizing negotiations on the tribunal to begin again, and in January 2003, talks resumed.

In December 2002, Prime Minister Hun Sen declared that he wished to rule for another 10 years. He announced that October that he would be the sole candidate for prime minister of the CPP if it wins the general election scheduled for 27 July 2003.

### 13 GOVERNMENT

Cambodia was a constitutional monarchy from 6 May 1947 until 9 October 1970, when Marshal Lon Nol formally established the Khmer Republic. On 30 April 1972, a new constitution was passed by a national referendum. It provided for a directly elected president and a bicameral legislature consisting of an elective 126-member National Assembly and 40-member Senate. Upon the surrender of the Lon Nol government to insurgent forces on 17 April 1975, rule by the Royal Government of National Union of Kampuchea (Gouvernement Royal de l'Union Nationale de Kampuchea—GRUNK) was installed in Phnom Penh, with Prince Norodom Sihanouk as titular head of state. A new constitution, effective 5 January 1976, provided for a unicameral, 250-member People's Assembly, elected for a five-year term by universal suffrage of citizens over age 18. The PRK government, installed in January 1979, enacted a new constitution in June 1981. Under this constitution, an elected National Assembly was the supreme organ of state power; it was headed by a 7-member Council of State, which the Assembly elected from among its own members.

On 23 October 1991 the UN peace accord was signed by Cambodia's four factions. From May 23–28, 1993 a six-day election, the first multiparty election in more than 20 years, was held to determine the 120 members of the National Assembly. FUNCINPEC took 45.5% of the votes amounting to 58 seats in the assembly; the Cambodian People's Party (CPP), formerly the Kampuchean People's Revolutionary Party (KPRP), received 38.2% of the votes equaling 51 assembly seats; and Buddhist Liberal Democratic Party (BLDP) had 3% of the votes giving them 10 seats; and Moulinaka (Movement for the Liberation of Kampuchea, a pro-Sihanouk group formed in 1979 by Kong Sileah, considered an offshoot of FUNCINPEC) took one seat. This newly elected National Assembly was authorized to draft a constitution. In June 1993 FUNCINPEC and the Cambodian People's Party agreed to joint control of the defense and interior ministries, while FUNCINPEC controlled the foreign and finance ministries; Hun Sen and Prince Ranariddh served as co-chairmen of the interim government. The National Assembly ratified a new constitution on 21 September 1993. The monarchy was re-established and commitments to liberal democracy, the rule of law, and women's rights were included. Prince Norodom Sihanouk ratified the constitution and again became King of Cambodia. The government of the State of Cambodia was an extremely fragile coalition after the elections, with enormous rivalries between Hun Sen's CPP, and Ranariddh's FUNCINPEC, as well as opposition from Sam Rainsy's unrecognized Khmer Nation Party. Much of the tension centered on attempts to win over factions of the Khmer Rouge, which were "coming out of the cold" en masse, their fighters and votes up for grabs by the rival political parties. In July 1997 Hun Sen's forces defeated FUNCINPEC in a brief but violent coup d'état. In 1998, the number of seats in the National Assembly was increased to 122. July 1998's national election legitimized Hun Sen's CPP dominance of the nation, but FUNCINPEC won a high

percentage of seats as well, and Ranariddh became Speaker of the National Assembly. The CPP took 64 seats, FUNCINPEC held 43, and the Sam Rainsy Party (SRP) took 15 seats in the National Assembly.

In March 1999, amendments to Cambodia's 1993 constitution allowed the formation of an unelected 61-seat Senate. Two Senate seats are appointed by the king, two elected by the National Assembly, and 57 are elected by "functional constituencies." Members serve five-year terms. Parliamentary elections were set for 27 July 2003.

## 14 POLITICAL PARTIES

Under Sihanouk, the People's Social Community Party (Sang Kam) was the most important political group. In the 1955, 1958, 1962, and 1966 elections, with a platform of nonalignment, economic aid, and development, it captured all seats in the National Assembly. Exiled in Beijing following his overthrow by Lon Nol in March 1970, Sihanouk allied himself with Cambodia's leftist insurgents under a group called the National United Front of Kampuchea (Front National Uni de Kampuchea—FNUK). Under the Khmer Republic government headed by Lon Nol, five political groups came to the fore. The Socio-Democratic Party (SDP), Lon Nol's own group, was quickly established as the most powerful political organization. Centrist opposition groups included the Republican Party and the Democratic Party. In the presidential elections held in June 1972, Lon Nol, the SDP's candidate, won by a relatively narrow margin of 55%.

With the victory of their forces in April 1975, leaders of the pro-communist FNUK became the dominant political power in Kampuchea. The leading element in FNUK was the Khmer Communist Party (KCP), founded in 1951 and now dominated by radicals Pol Pot (previously known as Saloth Sar) and Khieu Samphan. Khieu Samphan was named prime minister of the new regime, while Pol Pot remained party head. During the next few years the Pol Pot faction systematically purged all suspected pro-Vietnamese members of the party organization. In late 1978, opposition elements, headed by Heng Samrin, formed the Kampuchean National United Front for National Salvation (KNUFNS) in an effort to overthrow the Pol Pot regime. Following a Vietnamese invasion in December, Heng Samrin became the head of the pro-Vietnamese PRK government installed in January 1979. In 1981, the KNUFNS was renamed the Kampuchean United Front for National Construction and Defense, the primary mass organization in the PRK. Popularly known as the Khmer Rouge, the movement allied during the 1980s with two non-Communist factions, the Sihanoukists and Son Sann's KPNLF.

The Coalition Government of Democratic Kampuchea (CGDK), the tripartite, anti-Vietnamese resistance group formed in June 1982, changed its name to the National Government of Cambodia (NGC) in 1990. Autonomous coalition members were the Sihanoukist FUNCINPEC, the KPNLF, and the Khmer Rouge. Prince Sihanouk's main political organization, formed in 1981, was known as the National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia, or its French acronym, FUNCINPEC; he resigned as its head in 1989. In 1992 the Front was registered as a political party for the 1993 elections and Prince Norodom Ranariddh was elected president.

In 1992 the Khmer People's National Liberation Front (KPNLF), headed by Son Sann, formed the Buddhist Liberal Democratic Party (BLDP), also headed by Son Sann. The military wing of the KPNLF was the KPNLAF, the Khmer People's National Liberation Army formed under Son Sann in 1979. Although it boycotted the elections and attempted to undermine the peace process, the Khmer Rouge had also formed a party to

contest the elections, the Cambodian National Unity Party, headed by Kieu Samphan and Son Sen.

The Kampuchean People's Revolutionary Party (KPRP), the Communist Party originally installed by Vietnam in 1979 as the People's Republic of Kampuchea (PRK), was also known as the Heng Samrin Government in the late 1980s. In 1991 the KPRP dropped the word "Revolutionary" from the party name, becoming the Khmer People's Party or Cambodian People's Party (CPP). Hun Sen remained Chairman of the Council of Ministers of the government of the State of Cambodia a position he had held since 1985. At an extraordinary party congress, 17–18 October 1991, Chea Sim was elected party president, replacing Heng Samrin, and Hun Sen was elected party vice president; these events signaled a shift from hardline communist ideology to a reformist position prior to the UN-supervised elections. Chea Sim remained president of the National Assembly.

In the coalition government following the 1993 election, Hun Sen was made Second Premier, and FUNCINPEC's Ranariddh became First Premier. Hun Sen was able to push Ranariddh out of that position with 1997's brutal coup d'état, and the CPP won enough seats in the 1998 election to establish Hun Sen as sole prime minister.

Perennial opposition leader and anti-corruption crusader Sam Rainsy transformed his unrecognized Khmer Nation Party into the eponymous Sam Rainsy Party, which won significant Assembly seats in the 1998 election. Sam Rainsy has repeatedly stooped to race-baiting directed against Cambodia's Vietnamese population during his political career. At the same time, he is an eloquent spokesman for increased democratization and openness in Cambodia, and a persistent anti-authoritarian thorn in Hun Sen's side. In early 2000, Sam Rainsy brought the question of royal succession into the open, which seems to provoke Hun Sen's fear that his arch rival, Prince Ranariddh of FUNCINPEC, could possibly follow his aged, ailing father, Prince Sihanouk, to the throne of Cambodia's constitutional monarchy.

In May 2002, Prince Ranariddh's half-brother formed a new party, the Prince Norodom Chakrapong Khmer Soul party, to contest the national elections to be held in July 2003. Prince Ranariddh warned that the new party would split the royalist vote and ensure continued dominance by Hun Sen. Prince Norodom Chakrapong offered to form an alliance with the Sam Rainsy Party.

## 15 LOCAL GOVERNMENT

Under the Lon Nol government, Cambodia was divided into 20 provinces (*khet*), 7 sub-provinces (*anoukhet*), 147 districts (*srok*), and more than 1,200 townships (*sangkat* or *khum*) and villages (*phum*). Under the Pol Pot regime, administration was essentially decentralized into several major regions. Regions were divided into 41 districts, and the population as a whole was organized in massive rural communes. Under the PRK regime, the pre-1975 system of administration has been restored. Based on the People's Republic of Kampuchea's new constitution of June 1981 Local Assemblies, popularly elected by the respective localities—province, district, sub-district, ward—were instituted with the number of representatives fixed by law, and People's Revolutionary Committee's chosen by the respective assemblies. In 1987 Cambodia was divided into 18 provinces, two special municipalities (*krong*), and Phnom Penh and Kampong Saom, which were under direct central government control. The provinces were subdivided into about 122 districts, 1,324 communes, and 9,386 villages. Municipalities were subdivided into wards (*sangkat*). The same system of assemblies and committees remains in place. The new constitution of the State of Cambodia was adopted on 21 September 1993. People's Committees established in all provinces, municipalities, districts, communes, and wards were responsible for local administration, public security, and local order. Within this system provincial

officials and the governor effectively controlled the armed forces and security services, tax collection, civil service—and through them 80% of the Cambodian population. The country's provinces remained under the sway of the Cambodian People's Party (CPP) and responded to the old political loyalties rather than the central authority of the State of Cambodia. To alter this system the National Assembly passed laws to secure central control of the economy. Effective 1 January 1994 a national budget and financial laws were enacted to try to ensure that all revenues came totally and directly to the national treasury. Provincial corruption and lawlessness remain severe problems, as communications and infrastructure are extremely underdeveloped within Cambodia and smuggling is rife.

In February 2002, Cambodia held its first local elections in 23 years. The CPP claimed victory in all but 23 of the 1,621 communes. FUNCINPEC won only seven of the village communes. At least 20 political activists, mostly from opposition parties, were killed in the run-up to the elections. The proportion of female candidates in the elections was 16%.

As of January 2003, there were 20 provinces (*khett*) and 4 municipalities (*krong*).

## 16 JUDICIAL SYSTEM

The 1993 constitution of the Kingdom of Cambodia provides due process protections such as presumption of innocence and also guarantees an independent judiciary. Efforts are still being made to train judicial personnel to implement these principles, and to ensure basic human rights for Cambodians.

Prior to 1989, the constitution of 1976 provided for a supreme judicial tribunal whose members were to be appointed by a People's Assembly. Because of the civil and military turmoil, however, this system was never fully implemented. The judicial system that was outlined in the constitution of 1989 provided for provincial court judges named by state officials. In practice, the judiciary was controlled by the government.

The current legal system consists of lower courts, an appeals court and a Supreme Court. There is also a military court system. The 1993 constitution provides for a Constitutional Council, and a Supreme Council of Magistrates, which appoints and disciplines judges. With low revenues and high crime rates plaguing Cambodia, the justice system is burdened by substandard police procedures. Many serious crimes, notably political killings, go unsolved. Police corruption and abusive imprisonment conditions remain endemic.

## 17 ARMED FORCES

Cambodia has approximately 125,000 active personnel in the armed forces. The army consists of around 75,000 with over 100 main battle tanks. The navy numbers around 3,000 and the air force has 2,000 personnel with 24 combat aircraft. Provincial forces number some 45,000. There is a paramilitary of 67,000 police including gendarmerie. Defense expenditures in 2001 were \$112 million or 3% of GDP.

## 18 INTERNATIONAL COOPERATION

Cambodia has been a member of the UN since 14 December 1955 and participates in ESCAP and all the nonregional specialized agencies. Cambodia is also a member of the Asian Development Bank, FAO, IBRD, ILO, IMF, and G-77. As of January 2003, Cambodia was an applicant to the WTO.

China is the major ally of Cambodia. Cambodia was accepted as the tenth member of the Association of Southeast Asian Nations (ASEAN) in May 1998.

## 19 ECONOMY

Cambodia's economy has been based traditionally on agriculture. About 85% of the cultivated area is devoted to the production of rice, while rubber trees account for a major part of the remainder.

Prior to the war years, Cambodia's rice crop was usually ample enough to permit exports. The Tonle Sap is one of the major fishing reservoirs in Asia, and its products have played a key role in the Cambodian economy and diet. Cattle breeding is another important source of income. During the 1970–75 period, Cambodia's economy came to rely critically on US assistance, as the expansion of the war caused widespread damage and limited economic activity. The Pol Pot regime, which came to power in April 1975, was determined to emphasize the growth of agriculture and restore national self-sufficiency. The entire population was mobilized in a mass labor campaign to improve agricultural production through massive irrigation projects in the countryside. The cities were virtually emptied, and industrial production drastically declined. Private ownership of land was disallowed, and landholdings were transferred to the state or to state-organized cooperatives. All industrial enterprises were similarly transferred to state ownership. Sparse food supplies were distributed through a system of government food rationing and other forms of allotment.

When the PRK government took over in 1979, it was faced with a major challenge in restoring the national economy. The first problem was to end the threat of famine. A massive international campaign to feed the population took place during 1979–82. In the meantime, similar efforts were undertaken to stimulate the industrial sector and expand exports in order to obtain needed foreign exchange. Reliable sources note that the infrastructure was so severely degraded that it had only 40–50% of prewar capacity. By the mid-1980s, the economy had essentially returned to the level of the pre-1975 period, although the regime was still vitally dependent on foreign aid, chiefly from Vietnam and the former USSR. In July 1986, the PRK issued an emergency appeal to international organizations for rice.

Rule by the Khmer Rouge, 20 years of civil war, economic isolation, and a centrally planned economy imposed heavy burdens on Cambodia. Serious damage to basic infrastructure, industrial and agricultural production, and human resources required massive rehabilitation and reconstruction. Market-oriented reforms have been introduced which dismantle the centrally planned economy. Since 1989 Cambodia passed legislation to restore the right to own and inherit property, freed prices, passed a liberal foreign investment code, began to privatize state assets, and property, decontrolled the official exchange rate, and liberalized foreign trade. Reforms generated increased agricultural production and foreign investment. Phnom Penh and other urban areas received the greatest benefit from this economic activity.

In the 1990s Cambodia remained predominantly agricultural with more than 80% of workers employed in agriculture. Inflation rose steadily, the price of domestic commodities increased at least 140% in 1990, but by only 15% in 1998. In 1991 Cambodia halted the free trade of gold as part of an effort to stabilize the value of the currency, the riel. Triple-digit inflation made currency worthless in 1992 and it was pulled from circulation. In 1994 the riel was stabilized at 2,400–2,600 riel to one US dollar. In 1991–1993, the transition period from a command to a market-driven system, the presence of 22,000 UN personnel aided the Cambodian economy, although the growth was mainly urban, barely affecting rural areas. Western consumer goods such as motor vehicles, tinned food, alcohol, and cigarettes, were readily available in Phnom Penh and other cities. In 1990 GDP was negative, increasing to 13.5% in 1991 and estimated of 6–8% in 1992. On 4 January 1992 President Bush announced the lifting of the US trade embargo against Cambodia shortly after the signing of the Paris Peace Agreement on Cambodia in 1991.

One outcome of the May 1993 elections was a division of government portfolios between the winning party, FUNCINPEC, and the surprised runner-up, the Cambodian People's Party

(CPP). FUNCINPEC took over the financial and economic portfolios. An aggressive campaign was mounted to restructure tax, investment, banking and currency laws. As part of the battle against official corruption some contracts signed by the previous government were revised or abrogated. The government moved to strengthen the currency and provide new banking legislation. Effective 1 January 1994 were Cambodia's national budget and financial structure laws aimed at establishing central control of the economy. In August 1994, the government adopted a new liberalized foreign investment law with protections against nationalization and guarantees of national treatment except in matter of land ownership. The economy propelled into a period of strong growth, with real GDP increasing at an average annual rate of 7.2% 1993–97. The peak was reached in 1995, when real growth reached 8.4%. Inflation was only 3% in 1995, falling from 17.9% in 1994. During the next year two years, real growth declined, to 3.5% and 3.7%, respectively, while inflation rose, to 9% for both years. A more serious slowdown occurred in 1998 the Asian financial crisis; drought, civil violence, and political squabbles all conspired to slow growth to a barely discernable 1%, while inflation surged to 13.5%.

Cambodia's admission into ASEAN (Association of Southeast Asian Nations), scheduled for 1998, ended up being delayed until April 1999 due to a breakdown into factional violence in July 1997. The after-effects of the Asian financial crisis were also felt, reducing GDP growth to 1% in 1998, and spiking inflation to 12.6%. Recovery in 2000 was propelled by a 29% growth in industrial production, but moderated by a contraction in agricultural output of -2.7% due to the worst flooding in 70 years. Services grew 3.1% in 2000, producing an overall GDP growth rate of 5.4%. Inflation was completely eliminated as prices showed a slight decline of -0.8%. Flooding continued to be a problem in 2001, keeping agricultural growth to 4.4%, while growth in services slumped to 2.4% primarily due to a decline in tourism. Industrial growth was again the main propellant, growing 12.5%, producing an overall GDP growth of 5.3% in 2001. Estimates for 2002 were a 3% growth in GDP with 3% inflation, up from a -0.6% rate in 2001. In November 2001, Cambodia was removed for the US list of Major Drug-Transit Countries by executive action of President George W. Bush because of lack of evidence in recent years of any heroin transiting Cambodia coming to the United States.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Cambodia's gross domestic product (GDP) was estimated at \$18.7 billion. The per capita GDP was estimated at \$1,500. The annual growth rate of GDP was estimated at 5.3%. The average inflation rate in 2000 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 50% of GDP, industry 15%, and services 35%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$17 million or about \$1 per capita and accounted for approximately 0.5% of GDP. Worker remittances in 2001 totaled \$15.20 million. Foreign aid receipts amounted to about \$33 per capita and accounted for approximately 12% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$226. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. The richest 10% of the population accounted for approximately 33.8% of household consumption and the poorest 10% approximately 2.9%. It was

estimated that in 1997 about 36% of the population had incomes below the poverty line.

## 21 LABOR

In 1998, the economically active population was estimated at six million, of which 52% were female, due in large part to the holocaust of the Khmer Rouge. The estimated unemployment rate in 1999 was 2.8%. In 2001, approximately 80% of the population was agricultural workers, primarily engaged in subsistence rice farming.

The labor law provides the right for workers to form unions, prohibits forced or compulsory labor, sets a minimum wage, and set the minimum legal working age at 15 (unless employment is within a family enterprise). However, enforcement remains inconsistent. Unions are concentrated in the garment and footwear industries where around 28% of workers are union members. Strikes are protected by law.

A 48-hour workweek and minimum safety and health standards are provided by law. However, these rules are not effectively enforced. Separate minimum wages are established for each sector of the economy and average wages are so low that second jobs and subsistence agriculture are usually necessary. The minimum wage in the garment industry is \$45.00 per month. Many children are engaged in work activity, generally within the agricultural sector.

## 22 AGRICULTURE

Because of the lack of natural resources and the primitive industrial base in Cambodia, agriculture is the key sector in the economy. Arable land amounted to 3,807,000 hectares (9,007,000 acres) in 1998, or 22% of the total land area. In 2001, agriculture accounted for 50% of GDP and engaged 80% of the economically active population.

Rice provides the staple diet and prior to 1970 was Cambodia's major export, along with rubber. Production peaked at 3,200,000 tons in 1968; it began falling because of the expansion of the war and by 1974 had declined to 635,000 tons, but had risen back to 2,155,000 tons in 1990. Production in 1999 totaled 3,800,000 tons from 1,961,000 ha (4,846,000 acres).

Upon coming to power in April 1975, the Pol Pot regime embarked on a major rice production program, but the highest output achieved was only 1,800,000 tons in 1976 and in 1977; civil war, holocaust, and the Vietnamese invasion lowered the rice harvest in 1979 to one million tons. During the 1980s, rice production gradually increased, from about 1,564,000 tons in 1980–81 to an estimated 1,680,000 tons in 1985/86. During the mid-1980s the Khmer Rouge government attempted to stimulate production by delaying its plans for collectivization of the countryside. In 1989, the new government returned agricultural land to the tiller, which significantly boosted food production; average annual production in 1989–91 was 2,524,000 tons.

Rubber has traditionally been the second most important agricultural crop. However, rubber plantings, which covered 48,000 hectares (119,000 acres) in 1969, were almost completely destroyed by the end of 1971. Production, up to 51,100 tons in 1969, declined to virtually nil in 1971, recovering to about 16,000 tons in 1974. The Pol Pot and Khmer Rouge governments continued efforts to revive the rubber industry, the latter with aid from the former USSR and GDR. Recovery has been uneven and slow, however, and reached 40,000 tons in 1999. Other crops, with 1999 production levels, are: coconuts (56,000 tons), corn (50,000 tons), soybeans (28,000 tons), sweet potatoes (25,000 tons), dry beans (11,000 tons), cassava (68,000 tons), tobacco (10,000 tons), and peanuts (7,000 tons).

### 23 ANIMAL HUSBANDRY

Livestock, raised primarily by private households, traditionally supplied an important supplement to the Cambodian diet. The Pol Pot regime placed heavy stress on cattle and poultry breeding, but thousands died during the chaotic years of the late 1970s. Estimated livestock levels in 2001 were cattle, 2,868,000 (as compared with 700,000 in 1979), and pigs, 2,114,000 (as compared with 100,000 in 1979). Cambodia also had 626,000 head of buffalo, 15.2 million chickens, and 4.6 million ducks in 2001. In 2001, Cambodia produced an estimated 205,000 tons of meat, with pork accounting for 52%; poultry, 12% beef, 25%; and other meats, 11%.

### 24 FISHING

Production of freshwater fish, the main protein element in the Cambodia diet, traditionally ranked next to rice and rubber in the national economy. About half of Cambodia's freshwater catch came from the Tonle Sap. Offshore fishing grounds present a potential resource not yet fully exploited.

Marine fishing developed significantly during the 1980s; the saltwater catch totaled 3,015 tons in 1982 and 39,368 tons in 2000. In 2000, inland fishing amounted to 245,600 tons, up from 72,640 tons in 1994.

### 25 FORESTRY

About 53% of the country was forested in 2000. Forestry has been limited because of transportation difficulties and damage from war. The main products of the forest industry are timber, resins, wood oil, fuel, and charcoal. Production of roundwood, averaging about 4 million cu m (141 million cu ft) in the late 1960s, fell off sharply during the 1970–75 war, but increased to over 10.9 million cu m (385 million cu ft) in 2000. Exports of sawn wood were valued at \$10.5 million. Fuel wood production was 10.1 million cu m (357 million cu ft) in 2000.

### 26 MINING

Cambodia's mineral resources, though limited, had not been extensively explored and developed in the past two decades because of war, internal conflict, and the lack of appropriate legislation and policy to attract foreign investors. The mining sector, the smallest in the economy, contributed 0.16% to the country's GDP in 2001 and employed 4,000 people in 2000. In 2001, the country produced modest quantities of clinker cement, laterite blocks, phosphate rock, quartz sand, sand and gravel, crushed stones, sandstone, and salt; clay, gemstones, gold, iron ore, and lime were presumably produced as well. Cement and gem mining were leading industries in 2002. Other metallic minerals identified in the country were antimony, bauxite, chromium, copper, lead, manganese, molybdenum, silver, tin, tungsten, and zinc. In addition, Cambodia had resources of such industrial minerals as carbonate rocks, fluorite, quartz, silica sand, and sulfur. Iron deposits and traces of gold, coal, copper, and manganese have been reported in the Kampong Thum area. Substantial deposits of bauxite, discovered in the early 1960s north of Battambang and southeast of Phnom Penh, have yet to be worked. Potter's clay was common, and deposits of phosphates, used for fertilizer, existed in southern Kampot province and near Phnom Sampou. Precious gems were mined in the Pailin area and smuggled to Thailand. High-quality cornflower-blue sapphires have been the most valued gemstone produced to date, and high-quality rubies also have been found. It was unlikely that exploitation of the nation's mineral resources could be undertaken without continued removal of landmines.

### 27 ENERGY AND POWER

Several new power-generating facilities were installed in the mid-1960s, but total capacity was reduced by about one-third in the

course of the 1970s war, reaching 41,000 kW by 1973/74; in that period, production stood at 150 million kWh. Total generating capacity was 35,000 kW in 2001; net production in 2000 was 100 million kWh, of which 62.1% was from fossil fuels and 37.9% from hydropower. Electricity consumption was 122.8 million kWh in 2000.

Offshore oil was reportedly discovered by a French firm in August 1974 in the vicinity of the Wai Islands. In 1995 a total of 17 foreign companies submitted bids to explore for oil and gas both onshore and offshore; the offshore areas are near Sihanoukville on the Gulf of Thailand.

### 28 INDUSTRY

Industrial activity has traditionally centered on the processing of agricultural and forestry products and on the small-scale manufacture of consumer goods. Rice milling has been the main food-processing industry. Industrial expansion came to a virtual halt in 1970 with the outbreak of war. A few sectors (such as textiles and beverages) enjoyed a short wartime boom due to military orders, but losses in territory and transport disruptions had caused a rapid decline in activity by 1973. The Pol Pot government placed all industries under state control in 1975. In the course of the next four years, some 100 industries were abolished or destroyed. When the PRK took over in 1979, industrial plants began to reopen. By late 1985 there were a reported 60 factories in the state sector producing household goods, textiles, soft drinks, pharmaceutical products, and other light consumer goods. Most plants operate below capacity because of poor management and shortages of electricity, raw materials, and spare parts. There is little information on the small Cambodian private sector. The overall value of local and handicrafts industries in 1984 was estimated at about 50% of the output value in state industry.

Efforts at recovery continued in the early 1990s, but were hampered by dilapidated equipment and shortages that continued to affect industrial production, principally textiles and rubber production. For instance, following the cutback of assistance from the former Soviet Union in 1990, Cambodia's primitive industrial sector suffered from raw material shortages; three of six government-owned textile mills shut down because of shortages of cotton. When major Soviet oil supplies were depleted local companies imported oil, but the cash-strapped state companies suffered electricity brownouts daily. Major industries include rice milling, fishing, wood and timber products, rubber (largely abandoned since 1975), cement, and gem mining. Cambodia has significant mineral deposits of gold, silver, iron, copper, marble, limestone and phosphate, and a gem industry. Construction in urban areas boomed with the signing of the Paris peace accords in 1991. After Cambodia opened oil fields to foreign investors in February 1991, sixteen companies expressed interest in oil exploration. In January 1994 it was reported that five oil companies were conducting offshore oil and gas exploration.

In 1996, clothing industry exports more than doubled. Some 36 factories employed around 20,000 people. The average annual industrial growth rate for 1988 through 1998 was 8.5%. Growth slumped to 7.7% in 1998 due to the effects of the Asian financial crisis, civil, drought, and political disruptions. However, recovery was rapid in the industrial sector as it posted growth output of 12%, 29%, and 12.5% for 1999 to 2001. The garment industry grew by 50% during this period. In 2000, industry constituted 20% of total GDP.

### 29 SCIENCE AND TECHNOLOGY

Since 1979, foreign technicians have been helping to revive the economy. Aside from a School of Medicine and Pharmacy, there is virtually no opportunity within Cambodia to pursue scientific training or research. In 1987–97, science and engineering

students accounted for 13% of college and university enrollments.

### 30 DOMESTIC TRADE

Phnom Penh has traditionally been Cambodia's principal commercial center. Formerly, most wholesale and retail business was in the hands of French, Chinese, and Vietnamese. In April 1975 all private shops in the country were closed and virtually all domestic trade fell under the control of the state. Official currency was abolished in favor of barter. Following the installation of the PRK, currency was reestablished and some private trade resumed with official encouragement. Since 1983, private shops have resumed operation in Phnom Penh. Most of these shops are owned directly or subsidized by wholesalers. Goods are also sold from traveling vans or through newspaper advertisements.

In 1986, the government began collecting license fees, rents, and utility fees from private businesses and substantially increased their taxes. In the early 1990s the Heng Samrin government fell behind in its payments to government troops and bureaucrats, printing more money to meet these obligations. Without revenue this vicious cycle peaked in triple-digit inflation by 1992, when the currency was rendered worthless and pulled from circulation. Market prices rose as the currency value dropped meaning poorer Cambodians could not afford their staple food, rice. The United Nations Transitional Authority in Cambodia (UNTAC) introduced imported rice and sold it at a fixed price in an effort to halt the inflationary spiral.

Despite the economic benefits of the UN presence, political disruptions and violence in 1997 and 1998 reversed economic growth. In Cambodia depressed economic output is supplemented by goods smuggled in from Thailand and Singapore. Economic reforms became in earnest in 1999, which marked the first full year of peace for the nation in about 30 years.

As of 2001, about 80% of the population was employed in agriculture; however, the service sector is beginning to grow as the nation attempts to expand tourism. The economy is still heavily reliant on international aid.

### 31 FOREIGN TRADE

Cambodia has traditionally been an exporter of primary products and an importer of finished goods. The country's normal trade patterns virtually disintegrated during the war as exports declined, and Cambodia was largely sustained by US-subsidized imports. Under the Pol Pot regime, foreign trade virtually ceased. According to Western estimates, total trade (excluding trade with China) was \$3 million in exports and \$22 million in imports in 1977. With the installation of the PRK government, foreign trade began to rise in volume. The value of total exports rose from an estimated \$3–4 million in 1982 to approximately \$10 million in 1985; imports in that year came to about \$120 million. Almost all foreign trade has been with the former USSR and its allies, and most imports are in the form of grants. In 1985 Cambodia imported R100.2 million of goods from the USSR, compared to R18.8 million in 1984. Cambodia exported R14.9 million worth to the USSR in 1985, up from R3.9 million in 1984. The main import categories are food, vehicles, fuels, and raw materials. Cereal imports dropped from 223,000 tons in 1974 to 60,000 tons in 1985. Foreign trade is legally restricted to licensed private-sector firms and government agencies, although there is considerable smuggling between Cambodia and Thailand. In 1985, Cambodia and Vietnam signed an agreement to double their mutual trade in 1986.

In 1986 major export trading partners with Cambodia were Vietnam, the former USSR, Eastern Europe, Japan, and India. For imports major trading partners were the same countries. Soviet Union and CMEA assistance to Cambodia ceased in 1991. The

US trade embargo against Cambodia was lifted in January 1992 by President Bush. As of 1992 Cambodian exports were mostly agricultural, comprised of timber mainly and rubber. Logging is a ready source of badly needed export revenues for both the government and the other political factions. The United Nations Development Program (UNDP) estimated that the forest cover had fallen to as little as 40% of the land area by 1992. Cambodia's own forestry department figured that in 1969 forests covered 73% of the country's land area. The UNDP concluded that deforestation was a major threat to Cambodia's development.

In 1996, a textiles factory opened. In 2000, major export commodities were timber, garments, rubber, rice, and fish. Major import commodities were cigarettes, gold, construction materials, petroleum products, machinery, and motor vehicles.

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	293	39	254
Singapore	133	96	37
Thailand	77	169	-92
Germany	72	11	61
China (inc. Hong Kong)	69	226	-157
Vietnam	42	91	-49
Taiwan	21	126	-105
France	12	41	-29
Japan	8	71	-63
Malaysia	6	47	-41
Korea	1	68	-67

### 32 BALANCE OF PAYMENTS

Cambodia's balance-of-payments position showed a deficit every year during the period 1954–74. Payments transactions with other countries virtually ceased under the Pol Pot regime, when China conducted Kampuchea's external financial dealings. From 1979, Kampuchea continued to run a substantial trade deficit, much of which had been financed by grant aid and credits extended by the former USSR and Vietnam. To reduce the current account deficit Cambodia needs to reform its military and civil service. The current account deficit, which stood at 11.5% of GDP in 1999, was mainly financed by official development assistance grants and loans, and foreign direct investment. The country's official reserves at the end of 1999 were able to cover the equivalent of 3.5 months of imports.

In 2000, the country's foreign debt stood at approximately \$1.3 billion, the majority of which it owed to Russia; as of that date, it had yet to reach agreement with the Russian Federation on repayment of the debt.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Cambodia's exports was \$1.05 billion while imports totaled \$1.4 billion resulting in a trade deficit of \$350 million.

The International Monetary Fund (IMF) reports that in 2001 Cambodia had exports of goods totaling \$1.38 billion and imports totaling \$1.73 billion. The services credit totaled \$257 million and debit \$244 million. The following table summarizes Cambodia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-105
Balance on goods	-348
Balance on services	13
Balance on income	-43
Current transfers	273
<b>Capital Account</b>	63
<b>Financial Account</b>	75
Direct investment abroad	...
Direct investment in Cambodia	113
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-103
Other investment liabilities	65
<b>Net Errors and Omissions</b>	39
<b>Reserves and Related Items</b>	-73

### 33 BANKING AND SECURITIES

All banking institutions were nationalized by the Sihanouk government on 1 July 1964. The National Bank of Cambodia, a semi-autonomous government agency functioning as the sole currency authority, was charged with central banking responsibilities, including the control of credit. The decision by then Premier Lon Nol to permit foreign banks to do business in the country in early 1970 was a factor leading to his break with Prince Sihanouk and to the latter's overthrow in March 1970.

In April 1975, the Pol Pot government assumed control of the National Bank, and virtually all banking operations in Kampuchea were liquidated. The PRK government reintroduced a money economy, and by 1983 the National Bank of Cambodia (NBC) and a Foreign Trade Bank had been established. In 1991 the government created a state commercial bank to take over the commercial banking operations of the national bank. Banks in Cambodia include the Cambodian Commercial Bank, Cambodian Farmers Bank, and the Cambodian Public Bank. There were at least 50 commercial banks operating in 2001. The NBC has implemented new regulations for licensing banks, causing two banks to be closed. There is no securities trading in Cambodia.

The riel resumed its fall against the dollar in January and February of 1997 after briefly strengthening in December of 1996. It fell about 2% against the dollar in 2000 alone, trading at about 3,916.3 riels per dollar in 2001. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$155.7 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$562.7 million.

### 34 INSURANCE

All insurance companies were “Cambodianized” in 1960; 16 companies were in operation prior to 1975. Under the Pol Pot government, normal insurance operations were suspended. No current information is available concerning insurance in the PRK.

### 35 PUBLIC FINANCE

All government budgets of the two decades preceding 1975 were marked by an excess of expenditures over domestic revenues; foreign aid and treasury reserves made up the difference. There probably was no domestic public finance system during 1975–78; any public funds in that period came from China. During the 1980s, public expenditures were financed by the former USSR, either directly or through Vietnam.

From 1989–91, the public deficit nearly tripled as a result of falling revenue collection. As assistance from the Soviet bloc ceased after 1990, monetary expansion soared to cover the deficit. By the middle of 1992, with hyperinflation imminent, the government began a series of stabilization efforts to halt the fiscal deterioration. With only limited international aid, however,

public expenditures for the necessary reconstruction and development of Cambodia have been restricted.

The US Central Intelligence Agency (CIA) estimates that in 2000 Cambodia's central government took in revenues of approximately \$363 million and had expenditures of \$532 million including capital expenditures of \$225 million. Overall, the government registered a deficit of approximately \$169 million. External debt totaled \$829 million.

### 36 TAXATION

Until 1975, indirect taxes were the most profitable source of domestic revenue, especially such monopoly excises as the sales tax on salt. Other indirect taxes included those on alcohol, tobacco, sugar, radios, and livestock. Taxes ceased to exist with the abolition of currency during the Pol Pot regime and were replaced by payments in-kind. In 1984, the PRK introduced an agricultural tax to soak up profits earned by private farmers. The tax reportedly amounted to about 10% of total output. In 1986, taxes on private business were increased, which forced some shopkeepers out of business. In 2002, there was a general corporate tax of 9%, except for in the fields of resource exploitation.

### 37 CUSTOMS AND DUTIES

Cambodia has simplified its tariff system in recent years and eliminated most non-tariff barriers to trade. Customs duties are now divided into four simple categories: luxury goods, such as automobiles, alcohol, tobacco, and cosmetics have a rate of 70%; finished products such as electronics, paint, and furniture carry a tariff of 35%; machinery and capital equipment have a rate of 15%; and raw materials carry a tariff of 7%. A few products, such as agricultural equipment and pharmaceutical products, are exempt from import tariffs, but are still subject to the 10% value-added tax (VAT). The United States resumed diplomatic ties with Cambodia in September 1993. Cambodia joined ASEAN in 1998.

### 38 FOREIGN INVESTMENT

There was little private foreign capital in pre-1975 Cambodia. French capital in rubber plantations represented more than half of the total investment. Foreign investment was prohibited under the Pol Pot regime and was not resumed under its successor, the People's Republic of Kampuchea (PRK). As part of Cambodia's economic reforms the July 1989 Foreign Investment Law and the regulations implementing the law contained in the May 1991 sub-decree on foreign investment created a favorable foreign investment climate in Cambodia. From 1989 to 1991 there were over 200 investment applications, 20 being granted and 70 given tentative approval. Foreign investors from Thailand, Singapore, Taiwan, Hong Kong, France, and the US accounted for over half these applications; overseas Khmers accounted for 30%, and 10% were from local investors. By 1993 it was reported that final contracts had been signed for 45 of these 200 applications. The value of these proposals is small, \$1–5 million, and the proposals are concentrated in services, tourism, and textiles. The most visible projects are the 380-room Cambodiana Hotel in Phnom Penh, a satellite earth station project that provides international direct dial service, and a cellular telephone system in Phnom Penh. The primary hindrance to foreign investment is the lack of infrastructure—roads are in dismal condition, bandits roam, power outages are common, and phone service is inadequate.

The new foreign investment law was adopted by the National Assembly on 4 August 1994. It guarantees that investors shall be treated in a non-discriminatory manner, except for land ownership; that the government shall not undertake a nationalization policy which adversely affects private properties of investors; that the government shall not impose price controls on the products or services of an investor who has received prior

approval from the government; and that the government shall permit investors to purchase foreign currencies through the banking system and to remit abroad those currencies as payments for imports, repayments on loans, payments of royalties and management fees, profit remittances, and repatriation of capital.

In October 1999, the government entered into a three-year IMF-monitored program that included as a priority goal making the country more attractive for foreign direct investment. In February 2000 this program was complemented by a World Bank program aimed at revising Cambodia's 1994 Law on Investment (LOI). Foreign investment commitments averaged over \$800 million in the period 1996 to 1998, but fell to \$482 in 1999. Actual foreign investment in 1999, the latest data available, was \$160 million. In 2002, over 100 US companies and companies representing US products and services were active in Cambodia.

### 39 ECONOMIC DEVELOPMENT

Until 1975, Cambodian governments sought aid from public and private foreign sources and attempted to improve the climate for private foreign capital investment, although the volume of investment was small. Both Sihanouk and Lon Nol also increased local control of economic activities within the country. Aliens were prohibited from engaging in 18 professions or occupations, including those of rice merchant and shipping agent. The Sihanouk government promoted economic development through two five-year plans designed to improve the nation's light industrial sector and its educational and technological infrastructure. Progress was mixed. Strained economic conditions were a factor leading to the overthrow of Sihanouk in 1970. The outbreak of war following his fall brought almost all major production to a halt. The economic objectives of the 1975–79 Pol Pot regime were centered almost entirely on agriculture and the improvement of the irrigation network. Self-sufficiency was stressed, and foreign aid was almost nil except for an estimated \$1 billion from China. When the PRK government took over, it inherited a shattered economy and a depleted population. The 1986–90 five-year plan stressed growth in the agricultural sector, the restoration of light industry (which faces shortages of raw materials and electrical supply), gradual socialist transformation of ownership, dependence upon the former USSR and its allies for foreign assistance, and an increase of economic cooperation with its Indochinese neighbors. The PRK signed a number of aid, trade, and cooperation agreements with the former USSR and other Eastern European countries and was receiving substantial technological aid from neighboring Vietnam. Development assistance from the CMEA bloc totaled an estimated \$700 million between 1980 and 1984.

The PRK moved slowly on its plan to transform the Cambodian economy to full socialist ownership, in recognition of the relatively low socialist awareness of the population. A small private manufacturing and commercial sector was recognized by the constitution in 1981, and farmers were being introduced to collectivization through the formation of low-level "solidarity groups" which combined socialist and private ownership. PRK plans were to advance more rapidly toward socialist transformation during the 1990s. However, since the mid-1980s the emphasis has been placed on private sector economic activities. Newly introduced market-oriented reforms dismantled the old central planning regime. However, the structural underpinnings of a capitalist system—legal, financial, and institutional—exist only in rudimentary form. Many of Cambodia's nationalized industries were allowed to operate with limited autonomy from the state planning system, but the lack of capital and management expertise, as well as institutionalized corruption and bureaucratic red tape have mired this recovery process. In 1991 at the Tokyo Conference on the Rehabilitation and Reconstruction of Cambodia, \$880 million in assistance was pledged to Cambodia by donor countries and multilateral

institutions. An additional \$80 million in aid was pledged by the Asian Development Bank, and the World Bank planned a \$75-million assistance program. Under Sam Rainsy, Minister of Finance and Economy, the national assembly passed a budget and new Financial Structure Laws effective 1 January 1994. The government's aim was to establish central control of the economy and at the same time strike out at corrupt practices. About 48% of the budget was made up of international assistance; there was no land or income taxes with tax revenues providing only 6% of GDP, and customs duties provided 54% of total revenue. In October 1999, after the disruptions caused by civil unrest and the Asian financial crisis, the government entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF). The program focused on bank restructuring; reform of the Foreign Trade Bank; reform of forestry policy; and strengthening the public sector accounting and expenditure management. Concurrently, a Structural Adjustment Credit (SAC) loan program under the World Bank was approved in February 2000. The SAC program included conditionals related to the pilot military demobilization program, public expenditure management, forestry policy and revisions to the 1994 Law on Investment (LOI). Development in Cambodia is inextricably linked to the government's ability to maintain peace.

### 40 SOCIAL DEVELOPMENT

The Sihanouk and Lon Nol governments enacted limited social legislation regulating hours of work, wages, and workers' compensation. During the Pol Pot period, the social fabric of the country was severely damaged. Although installation of the PRK government brought an end to the wide-ranging trauma of 1975–79, overall social conditions in Cambodia remain among the worst in southeast Asia. Unstable conditions have also limited improvement in the standard of living, still one of the lowest in the region.

Cambodia's 1993 constitution provides equal rights for women in areas including work and marriage. Women have property rights equal to those of men, and have equal access to education and certain jobs. However, traditional views of the roles of women act to prevent women from reaching senior posts in government and business. Domestic violence against women remains a widespread problem.

In 1993, widespread racial violence led many ethnic Vietnamese to flee the country. Some of these refugees have now returned to Cambodia, but they continue to face considerable official and social discrimination.

Cambodia's human rights record includes a number of abuses, including extrajudicial killings, and other uses of excessive force by security forces. Impunity for such abuses remains a problem.

### 41 HEALTH

One of the most impoverished countries in Southeast Asia, Cambodia is prey to the health problems that arise from malnutrition and inadequate sanitation, including diarrhea, respiratory infections, and dengue fever, as well as those that could be prevented by an adequate vaccination program, such as tuberculosis. The 1970–75 war and the 1975–79 upheaval exacerbated many of these problems. Malnutrition became widespread among the millions driven to Phnom Penh in the wake of the fighting and who were driven out of that city when the Khmer Rouge took over. Tens of thousands died from shortages of food and medical facilities and supplies. Cambodia had only 50 physicians in 1979.

In 1995 the government mapped out a new public health program, which was only partly implemented as of 2000. As of 1999, total health care expenditure was estimated at 6.9% of GDP.

Life expectancy in Cambodia in 2000 was 54 years and the 1999 birth rate was 41 per 1,000 people. The infant mortality



rate was 88 per 1,000 live births in 1999 and the maternal death rate was high as well; 470 women died in childbirth or pregnancy per 100,000 live births (as of 1998). The general mortality rate was estimated at 11 per 1,000 in 2002. Dysentery, malaria, tuberculosis (in 1999, 560 reported cases per 100,000 people), trachoma, and yaws are widespread. In 2000, 30% of the population had access to safe drinking water and only 18% had adequate sanitation. Prior to 1975 there were 3 hospitals, with 7,500 beds (about 1 bed for every 893 persons). During 1979–81, 7 large hospitals and 3 pharmaceutical factories opened. As of 1999, there were an estimated 0.3 physicians and 2.1 hospital beds per 1,000 people.

AIDS spread rapidly in Cambodia during the latter half of the 1990s. The HIV prevalence rate rose from 0.1% in 1991 to 4% in 1999. As of 1999, the number of people living with HIV/AIDS was estimated at 220,000 and deaths from AIDS that year were estimated at 14,000. Eighty percent of the urban population and only 50% of the rural population had access to health services between 1985 and 1995. As of 2000, an estimated 53% of children under five were malnourished. The 1999 immunization rates for children up to one year old were diphtheria, pertussis, and tetanus, 49%, and measles, 55%.

## 42 HOUSING

Cambodia's housing traditionally compared favorably with that of other countries in Southeast Asia. The most common type of dwelling consists of one or more rooms raised on mangrove piles some three m (10 ft) above the ground; it is generally crowded. Many houses in the cities are larger and of better quality.

Mass emigration from the cities during 1975–76 resulted in many dwellings being left vacant, in contrast to the dire overcrowding that occurred in the last years of the war. In the countryside, meanwhile, the waves of new migrants placed inordinate pressures on existing facilities, with much of the transplanted population forced to reside in improvised shelters. By the early 1980s, this pattern had been reversed somewhat and Phnom Penh was once again experiencing population growth.

In 1998, there were about 2,188,663 households with an average of 5.2 people per household. Only 12.% of all dwellings were linked to public electrical lines; 80% of dwellings used kerosene for lighting and 90% burned wood for cooking fuel. About 40% of dwellings receive water from dug wells. Nearly 29% go to local rivers and streams for their water supply.

## 43 EDUCATION

Under the Pol Pot regime, education was virtually abolished, as all children were sent to work in the fields; education was limited to political instruction. Most of the educated class had been killed by 1979. According to PRK sources, only 50 of 725 university instructors and 307 of 2,300 secondary-school teachers survived the Pol Pot era.

Currently, the educational system is being rebuilt and is recovering. As of 1999, public expenditure on education was estimated at 5.5% of GDP. Adult illiteracy was estimated at 31.5% (males, 20%; females, 43%) in 2000. The number of teachers at the primary school level increased from 30,316 in 1980 to 43,282 in 1998, while the number of students increased from 1,328,053 to 2,011,772. At the secondary level, there were 19,135 teachers and 191,135 students in 1998. As of 1999, 89% of primary-school-age children were enrolled in school, while 16% of those eligible attended secondary school. In the same year, the pupil-teacher ratio at the primary level was 50 to 1. A total of 8,901 students were enrolled in post-secondary education in 1998, with 1,001 teachers.

All schooling is public, and six years of primary education (ages 6–12) is compulsory. Following this, children may go through six years of secondary education, of which only the first

three are compulsory. Most students continue their higher education at foreign universities.

## 44 LIBRARIES AND MUSEUMS

Library facilities before the war were limited largely to the National Library (33,000 volumes, mostly French) in Phnom Penh. Also in the capital are the libraries of the University of Phnom-Penh (10,000 volumes) and Buddhist Institute (25,000 volumes). The École Française de l'Extrême-Orient, which previously had charge of all archaeological research in the country, also had its own research library in Phnom Penh.

Cambodia, in effect, is a museum of the cultural achievements of the Khmer Empire. Surviving stone monuments, steles, temples, and statuary attest to a formidable and unique artistic heritage. Particularly imposing are the world-famous temple of Angkor Wat and the Bayon of Angkor Thom. In the chaotic years of the 1980s and early 1990s, there were many press reports of pillaging of these historic sites. The PRK government established museums in what it portrayed as GRUNK death camps, with exhibits on atrocities committed during 1975–79. The National Museum of Phnom-Penh (1917), an excellent repository of national art, has an extensive collection of Khmer art from the 5th through 13th centuries.

## 45 MEDIA

As of 2002, the telephone service was said to be adequate for government needs and for residents of Phnom Penh and other main provincial cities. Rural areas generally had very little access to landline phone service. In 1998, there were about 21,800 mainline phones in use. In 2000, there were an additional 80,000 cellular phones in use throughout the country.

TV-Kampuchea began color transmission in 1986. As of 1999, there were 7 AM and 3 FM radio stations. In 2001, there were six government-owned television stations. In 2000 there were 119 radios and 8 television sets for every 1,000 people. In 2001, there were 6,000 Internet subscribers served by two service providers.

There are two daily newspapers, *Rasmei Kampuchea* (2002 circulation 15,000) and *The Cambodia Daily* (2,000). The *Phnom Penh Post* is a weekly publication. There are over 50 newspapers in all, including weeklies, bi-weeklies, and monthlies, mostly in the Khmer language. The official news agency is the Agence Khmer de Presse (AKP). Most newspapers are nominally independent, but many receive significant funding from political parties and the government. English language weeklies were launched in July 1997.

The Constitution provides for freedom of speech and press, but the government is said to sometimes limit the press in practice. The intimidation of journalists is said to be declining. The government, political forces and the military dominate the broadcast media.

## 46 ORGANIZATIONS

In 1975, cooperative organization became a central tenet of the GRUNK government's social and economic reorganization policy. By 1976, cooperative ownership had become a countrywide phenomenon, playing a major role in both agriculture and industry. Virtually all other social and commercial organizations, including chambers of commerce, were disbanded by mid-1975; however, a number of new groups have formed since the 1990s. The Khmer Youth Association, founded in 1992, has been very active in promoting education and job training, as well as the championing the rights of women and children. The Cambodian Human Rights and Development Association, established in 1991, promotes respect for human rights and the rule of law by providing legal services and educational materials to the public.

#### 47 TOURISM, TRAVEL, AND RECREATION

Until the encroachments of war in the late 1960s, Angkor Wat and other remains of the ancient Khmer Empire were the major attractions for visitors to Cambodia. Under the Pol Pot regime, tourism was nonexistent, and it was not substantially revived under the PRK. However, since the 1992 UN peace plan, tourism has rebounded, spurred by the opening of hundreds of new facilities and scores of new diplomatic missions. In 2000, 351,661 tourists visited Cambodia and tourist receipts totaled \$228 million. There are two government-run tourist agencies and a number of new private tour groups. Dozens of hotels have opened in the capital. As of 1999 the country had 9,105 hotel rooms with 14,805 beds and an occupancy rate of 44%.

In 1999, the UN estimated the cost of staying in Phnom-Penh at \$87 to \$156, depending upon the choice of hotel. Travel outside the capital is significantly less expensive, with estimates as low as \$37 per day.

#### 48 FAMOUS CAMBODIANS

Foremost among ancient heroes were Fan Shihman, greatest ruler of the Funan Empire (150–550), and Jayavarman II and Jayavarman VII, monarchs of the Khmer Empire who ruled between the 10th and 13th centuries. Prince Norodom Sihanouk (b.1922), who resigned the kingship and won Kampuchea's independence from France, is the best-known living Cambodian. In exile in China during 1970–75, he founded the GRUNK government, from which he resigned in April 1976. In July 1982, he became president of the CGDK. Khieu Samphan (b.1931), a former Marxist publisher and leader of the insurgency in Kampuchea, was named chairman of the State Presidium in the GRUNK government in April 1976, replacing Sihanouk as chief of state. The de facto head of the GRUNK regime during 1975–79 was Pol Pot, the nom de guerre of Saloth Sar (1925–98), who presided over the drastic restructuring of Kampuchean society that left as many as 2–3 million dead in its wake. Heng Samrin (b.1934) became president of the Council of State of the PRK in 1979. Photographer Dith Pran (b. 1943), whose ordeal with the Khmer Rouge was portrayed in the film *The Killing Fields*, helped chronicle the atrocities of the Pol Pot regime.

#### 49 DEPENDENCIES

Cambodia has no territories or colonies.

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# CHINA

People's Republic of China  
*Zhonghua Renmin Gongheguo*

**CAPITAL:** Beijing (Peking)

**FLAG:** The flag is red with five gold stars in the upper left quadrant; one large star is near the hoist and four smaller ones are arranged in an arc to the right.

**ANTHEM:** *March of the Volunteers.*

**MONETARY UNIT:** The renminbi, or “people’s money,” denominated in yuan (Y), is equivalent to 10 jiao or 100 fen. There are coins of 1, 2, and 5 fen, 1, 2, and 5 jiao, and 1 yuan, and notes of 1, 2, and 5 fen, 1, 2, and 5 jiao, and 1, 2, 5, 10, 50, and 100 yuan. Y1 = \$0.12097 (or \$1 = Y8.266) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some Chinese units remain in common use.

**HOLIDAYS:** New Year’s Day, 1 January; Spring Festival (Chinese New Year), from the 1st to the 3d day of the first moon of the lunar calendar, usually in February; International Women’s Day, 8 March; May Day, 1 May; Army Day, 1 August; Teachers’ Day, 9 September; and National Day, 1–2 October.

**TIME:** 8 PM = noon GMT.

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

The People’s Republic of China (PRC), the third-largest country in the world after the former USSR and Canada and the largest nation in Asia, claims an area of 9,596,960 sq km (3,705,406 sq mi), including Taiwan, which the PRC claims as a province; the major administrative divisions, excluding Taiwan and the offshore islands, cover 9,444,292 sq km (3,646,448 sq mi). Comparatively, the area occupied by China is slightly larger than the United States. The mainland has an extension of 4,845 km (3,011 mi) ENE–WSW and 3,350 km (2,082 mi) SSE–NNW. The mainland’s 5,774 km (3,588 mi) coastline, extending from the mouth of the Yalu River in the northeast to the Gulf of Tonkin in the south, forms a great arc, with the Liaodong and Shandong peninsulas in the north protruding into the Yellow Sea and the Leizhou Peninsula in the south protruding into the South China Sea. China’s territory includes several large islands, the most important of which is Hainan, off the south coast. Other islands include the reefs and islands of the South China Sea, extending as far as 4° N. These reefs and islands include Dongsha (Pratas), to which Taiwan has also laid claim. China’s claims to the Xisha (Paracel) and Nansha (Spratly) archipelagoes are also in dispute. In 1986, the United Kingdom agreed to transfer Hong Kong to the PRC in 1997; in March 1987, the PRC and Portugal reached an agreement for the return of Macau to the PRC on 20 December 1999.

China is bordered on the N by Mongolia (Mongolian People’s Republic–MPR) and Russia; on the NE by the Democratic People’s Republic of Korea (DPRK); on the E by the Yellow and the East China seas; along the southern border are Hong Kong, Macau, the South China Sea, the Gulf of Tonkin, Vietnam, and Laos; on the SW by Myanmar, India, Bhutan, and Nepal; on the W by India, Jammu and Kashmir (disputed areas), Pakistan (west of the Karakoram Pass), and Afghanistan; and on the NW by Tajikistan, Kyrgyzstan, and Kazakhstan. China’s total boundary length, including the coastline (14,500 km/9,010 mi) is 36,647 km (22,771 mi). China’s capital city, Beijing, is located in the northeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

China may be divided roughly into a lowland portion in the east, constituting about 20% of the total territory, and a larger section consisting of mountains and plateaus in the west. The principal lowlands are the Manchurian (Dongbei) Plain, drained by the Songhua (Sungari) River, a tributary of the Amur (Heilongjiang), and by the Liao River, which flows to the Yellow Sea; the North China Plain, traversed by the lower course of the Yellow (Huang He) River; the valley and delta of the Yangtze (Chang Jiang) River; and the delta of the Pearl (Zhu) River surrounding Guangzhou (Canton). West of these lowlands, the country’s topography rises to plateaus of 1,200–1,500 m (about 4,000–5,000 ft): the Shanxi and Shaanxi loess plateaus, in central China, and the Mongolian Plateau, in the north.

Beyond lie the high plateaus of Tibet, with an average elevation of 4,600 m (15,000 ft), and the great mountain ranges. The highest mountains are the Kunluns and the Himalayas. North of Tibet are two plateau basins of Central Asia, the Tarim and the Junggar, which are separated from each other by the Tian Mountains. The Chinese portion of the Tian range, which also extends into the former USSR, rises above 7,000 m (23,000 ft).

The great rivers of China flow eastward toward the Pacific. In the northeast, the Amur drains a great part of the Manchurian Basin as it winds along its 4,350 km (2,719 mi) course. Other northeastern rivers include the Liao, the Tumen, and the Yalu, the last two both rising in Mt. Paaktu, flowing respectively northeast and southwest, and forming the boundary between China and the DPRK. The main river of north China, and the second largest in the country, is the Yellow River (Huang He). From Gansu it winds about 4,671 km (2,903 mi) eastward to Shandong Province, where it empties into Bo Hai (Gulf of Zhili, or Chihli). The valley of the Yellow River covers an area of 1,554,000 sq km (600,000 mi).

Central China is drained mainly by the Yangtze and its tributaries. The largest river in China, the Yangtze travels 5,525 km (3,434 mi) and drains 1,808,500 sq km (698,300 sq mi) of land. As China’s only long river with no natural outlet, the

Huai River, flowing between the Yangtze and the Yellow and roughly parallel to them, is subject to frequent flooding. To the southwest are the upper courses of the Mekong (Lancang) and Brahmaputra (Yarlung Zangbo) rivers.

Northern China is in a major earthquake zone; on 28 July 1976, a tremor measuring 8.2 on the Richter scale struck the city of Tangshan (145 km/90 mi east of Beijing), causing widespread devastation and the deaths of over 650,000 people.

### 3 CLIMATE

Although most of China lies within the temperate zone, climate varies greatly with topography. Minimum winter temperatures range from  $-27^{\circ}\text{C}$  ( $-17^{\circ}\text{F}$ ) in northern Manchuria to  $-1^{\circ}\text{C}$  ( $30^{\circ}\text{F}$ ) in the North China Plain and southern Manchuria,  $4^{\circ}\text{C}$  ( $39^{\circ}\text{F}$ ) along the middle and lower valleys of the Yangtze, and  $16^{\circ}\text{C}$  ( $61^{\circ}\text{F}$ ) farther south. Although summer temperatures are more nearly uniform in southern and central China, with a July mean of about  $27^{\circ}\text{C}$  ( $81^{\circ}\text{F}$ ), northern China has a shorter hot period and the nights are much cooler.

Rain falls mostly in summer. Precipitation is heaviest in the south and southeast, with Guangzhou receiving more than 200 cm (80 in), and diminishes to about 60 cm (25 in) in north and northeast China, and to less than 10 cm (4 in) in the northwest. Approximately 31% of the total land area is classified as arid, 22% as semiarid, 15% as subhumid, and 32% as humid.

### 4 FLORA AND FAUNA

Much of China's natural vegetation has been replaced or altered by thousands of years of human settlement, but isolated areas still support one of the world's richest and most varied collections of plants and animals. Nearly every major plant found in the tropical and temperate zones of the northern hemisphere can be found there. In all, more than 7,000 species of woody plants have been recorded, of which there are 2,800 timber trees and over 300 species of gymnosperms. The rare ginkgo tree, cathaya tree, and metasequoia, long extinct elsewhere, can still be found growing in China. Among flowering plants, 650 of the 800 known varieties of azalea occur in China, while 390 of the 450 known varieties of primrose and about 230 of the 400 known varieties of gentian are also found there. The tree peony, which originated in Shandong Province, appears in 400 varieties.

The richest and most extensive needle-leaf forests occur in the Greater Hinggan ling (Khingan) Mountains of the northeast, where stands of larch, Asian white birch, and Scotch pine flourish, and in the Lesser Hinggan ling (Khingan) Mountains, with stands of Korean pine and Dahurian larch. In the Sichuan (Szechuan) Basin, vegetation changes with altitude to embrace a variety of conifers at high levels, deciduous trees and cypresses at middle elevations, and bamboo in lower elevations. Farther south, in subtropical Fujian and Zhejiang provinces, broadleaf evergreen forests predominate. Forests give way to natural grasslands and scrub in drier western and northwestern areas, especially in the semiarid regions of Shanxi and Shaanxi, in the steppes of Inner Mongolia, and along the desert margins of the Tarim and Junggar basins.

China's most celebrated wild animal is the giant panda, a rare mammal now found in the wild only in remote areas of Sichuan, Gansu, and Shanxi provinces; as of 1994, just over 500 wild pandas were still in their natural state. Other fauna unique to China include the golden-haired monkey, found in remote parts of Shaanxi, Gansu, Sichuan, Guizhou, and Yunnan; the northeast China tiger, found in the Lesser Hinggan ling and Changbai mountains along the Korean border; the Chinese river dolphin and Chinese alligator, both found along the middle and lower Yangtze River; the rare David's deer and the white-lipped deer, the latter found mainly in Qinghai Province and Tibet; a rare kind of white bear found in Hubei Province; and the lancelet, an ancient species of fish representing a transitional stage between

invertebrate and vertebrate development, now found only in Fujian Province. In addition, more than 1,000 species of birds have been recorded. Among the rarer kinds are the mandarin duck, the white-crowned long-tailed pheasant, golden pheasant, Derby's parakeet, yellow-backed sunbird, red-billed leiothrix, and red-crowned crane.

### 5 ENVIRONMENT

It is estimated that China has lost one-fifth of its agricultural land since 1957 due to economic development and soil erosion. Since 1973, China has taken significant steps to rectify some of the environmental damage caused by rampant use of wood for fuel, uncontrolled industrial pollution, and extensive conversion of forests, pastures, and grasslands to grain production during the Cultural Revolution. Reforestation, including construction of shelter belts, has emphasized restoration of the erosion-prone loesslands in the middle reaches of the Yellow River. In 1979, the Standing Committee of the Fifth National People's Congress adopted an Environmental Protection Law and a Forestry Law. In 1989, China began a nationwide program called the Great Green Wall of China which began to accelerate the rate of reforestation. In 1995, China had 133,323 ha of forest land.

Water supplies are limited—per capita consumption in China's cities is about 34 gallons a day, less than half that in many developing countries—and conservation, reclamation, and redistribution of water constitute major national priorities. Safe drinking water is unavailable to much of the population (as much as one-third, according to some estimates). By 1989, 436 of 532 rivers were polluted. In 1994, the World Health Organization reported that Chinese cities pollute water supplies more than those of any other country in the world. Legislation provides for the protection of aquatic resources, including water quality standards for farmland irrigation and fisheries. To alleviate water shortages in the heavily populated Beijing-Tranjin region, a massive water transfer project from the Yangtze River to the north by means of a dam, first proposed in the 1930s, has been seriously reconsidered in recent years. The project has aroused considerable controversy because hundreds of thousands of people would be uprooted, prime farmland flooded, many archaeological treasures submerged, and the ecology of the river area damaged.

The use of high-sulfur coal as a main energy source causes air pollution and contributes to acid rain. In the mid-1990s, China had the world's second highest level of industrial carbon dioxide emissions, totaling 2.67 billion metric tons per year, a per capita level of 2.27 metric tons per year. Investment in pollution-reducing technology is required of all industrial enterprises. Penalties are imposed for noncompliance, and incentives, in the form of tax reductions and higher allowable profits, are available for those enterprises that meet environmental standards. Beijing has implemented programs for controlling discharges of effluents, smoke and soot emissions, and noise pollution. Special success has been claimed for the recovery of oil from effluents of the Daqing oil field in Heilongjiang, refineries, and other oil-processing establishments; use of electrostatic precipitators and bag collectors by the cement and building industries; recovery of caustic soda and waste pulp from effluents of the pulp and paper industries; introduction of nonpolluting processes into the tanning and depilating of hides; use of nonmercuric batteries; recovery of fine ash from coal-burning power plants for use in the manufacture of bricks, tiles, cement, and road-surfacing materials; and development of new methodologies for recycling coal wastes and marine oil discharges.

To protect the nation's botanical and zoological resources, a program was adopted in 1980 to establish 300 new reserves, with a total area of 9.6 million ha (23.7 million acres). That goal was achieved by the end of 1985, one year ahead of schedule. The largest reserve, covering 800,000 ha (1,980,000 acres), is the



LOCATION: (not including islands south of Hainan): 18°9' to 53°34' N; 78°38' to 135°5' E. BOUNDARY LENGTHS: Afghanistan, 76 kilometers (47 miles); Bhutan 470 kilometers (292 miles); Myanmar 2,185 kilometers (1,358 miles); Hong Kong, 30 kilometers (19 miles); India 3,380 kilometers (2,100 miles); Kazakhstan 1,533 kilometers (953 miles); North Korea 1,416 kilometers (880 miles); Kyrgyzstan 858 kilometers (533 miles); Laos, 423 kilometers (263 miles); Macau, 0.34 kilometers (0.21 miles); Mongolia 4,673 kilometers (2,904 miles); Nepal, 1,236 kilometers (768 miles); Pakistan, 523 kilometers (325 miles); Russia (NE) 3,605 kilometers (2,240 miles); Russia (NW) 40 kilometers (25 miles); Tajikistan 414 kilometers (257 miles); Vietnam, 1,281 kilometers (796 miles); total coastline, 14,500 kilometers (9,009 miles). TERRITORIAL SEA LIMIT: 12 miles.

Changbai Mountain Nature Reserve, in the northeast. Others include the Wolong reserve in Sichuan Province, covering 200,000 ha (494,000 acres) and famous for its research on the giant panda; the Dinghu Mountain reserve in Guangdong Province, where a subtropical evergreen broadleaf monsoon forest that has remained virtually untouched for four centuries provides opportunities for ecological studies; and the Nangun River area in Yunnan Province, where the principal focus of protection is the tropical rain forest.

Endangered species in China include Elliot's pheasant, Cabot's tragopan, yarkand deer, Shansi sika deer, South China sika, North China sika, the Chinese alligator, the Amur leopard, Javan

rhinoceros, Thailand brow-antlered deer, the white-lipped deer, Bactrian camel, the giant panda, and the Siberian white crane.

In 2001, 75 species of mammals out of 400 were endangered along with 90 species of birds and 113 plant species. Trade in endangered species has been reported.

## 6 POPULATION

China is the most populous country in the world, accounting for 21% of the estimated world population. Until recently, it was also the only one to have attained the status of demographic billionaire, but India has also reached a one billion population. Government policy in the 1990s called for an extensive family planning program to limit population growth. The population of

China in 2003 was estimated by the United Nations at 1,289,697,000. According to the UN, the annual population growth rate for 2000–2005 is 0.73%, with the projected population for the year 2015 at 1,402,321,000. Approximately 7% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 106 males for every 100 females in the country in 2003. The average population density in 2002 was 134 per sq km (347 per sq mi), but the distribution of the population throughout China is extremely uneven. The most densely populated areas near the coast have a population density of more than 400 people per sq km (1,036 per sq mi). The western plateaus are sparsely populated.

It was estimated by the Population Reference Bureau that 32% of the population lived in urban areas in 2001. The capital city, Beijing, had a population of 10,825,000 in that year. Government policy has sought to limit the growth of the large eastern cities, especially Beijing, Shanghai, and Tianjin, and to promote the growth of smaller cities away from the coast. China has over 60 metropolitan areas with populations greater than 750,000. The largest urban centers were Shanghai, 14,173,000; Beijing, 12,033,000; and Tianjin, 10,239,000. Other large metropolitan areas included Shenyang, 5,681,000; Guangzhou, 5,162,000; Harbin, 5,475,000; Chengdu, 5,293,000; Wuhan, 4,750,000; Hangzhou, 6,389,000; Changchun, 5,566,000; Chongqing, 3,896,000; Jinan, 4,789,000; Qingdao, 4,376,000; Xi'an, 3,352,000; and Dalian, 3,153,000. According to the United Nations, the urban population growth rate for 2000–2005 was 2.3%.

## 7 MIGRATION

The overseas migration of millions of Chinese reached its peak in the 1920s, when thousands of farmers and fishermen from the southeastern coastal provinces settled in other countries of Southeast Asia. Chinese constitute a majority in Singapore and Hong Kong, are an important ethnic group in Malaysia, and make up a significant minority in the Americas. In 1949, after the Communist victory, some two million civilians and 700,000 military personnel were evacuated to Taiwan.

Since in many places abroad the Chinese population has been growing at a rate faster than that of the local non-Chinese population, most countries have been trying to curtail the entrance of new Chinese immigrants. Emigration from China under the PRC government was once limited to refugees who reached Hong Kong, but is now denied only to a few political dissidents, if the state is reimbursed for postsecondary education costs. Immigration is for the most part limited to the return of overseas Chinese. At the end of 1999, the UNHCR reported 285,000 Vietnamese refugees in China, 91% of whom are of Chinese ancestry.

During the Cultural Revolution of the 1960s and 1970s, more than 60 million students, officials, peasant migrants, and unemployed were sent “down to the countryside” in a gigantic rustication movement. The goals of this program were to relocate industries and population away from vulnerable coastal areas, to provide human resources for agricultural production, to reclaim land in remote areas, to settle borderlands for economic and defense reasons, and, as has been the policy since the 1940s, to increase the proportion of Han Chinese in ethnic minority areas. Another purpose of this migration policy was to relieve urban shortages of food, housing, and services, and to reduce future urban population growth by removing large numbers of those between 16 and 30 years of age. Most relocated youths eventually returned to the cities, however.

Efforts to stimulate “decentralized urbanization” have characterized government policy since the late 1970s. Decentralized urbanization and the related relocation of industries away from established centers has also been promoted

as a way for China to absorb the increasing surplus labor of rural areas, estimated at 100 million for the year 2000.

On 1 July 1997, the sovereignty of Hong Kong reverted back to China. As of 1999, 1,562 ex-CPA refugees and screened-out non-refugees still remained in the Hong Kong Special Administrative Region (SAR). In 2000, the net migration rate for China was -0.3 migrants per 1,000 population. This amounted to a loss of approximately 381,000 people. In that same year there were 513,000 migrants living in China, including some 294,000 refugees. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

According to the latest estimates, the largest ethnic group, accounting for 91.9% of the total population, is the Han. The Han form a majority in most of the settled east and south but remain a minority, despite continuing immigration in the west.

The remaining 8.1% of the population is comprised of minority groups. Because of their predominance in strategically sensitive border areas, they hold a political and economic importance disproportionate to their numbers. The largest minority, at last estimate was the Zhuang, a Buddhist people, related to the Thai, who are primarily concentrated in Guangxi, Yunnan, and Guangdong. Other large minorities were the Manchu, concentrated in Heilongjiang, Jilin, and Liaoning; the Hui, a Chinese-speaking Muslim people concentrated in Ningxia, Gansu, Henan, and Hebei; the Uygur, a Muslim Turkic people of Xinjiang; the Yi, formerly called Lolo, a Buddhist people related to the Tibetans and concentrated in Yunnan, Sichuan, and Guizhou; the Miao, in Guizhou, Hunan, Yunnan, and Guangxi; and the Tibetans, concentrated in Xizang (Tibet), Qinghai, and Sichuan. Other minority nationalities, with estimated populations of more than one million, included the Mongolians; Tujia; Buyi; Koreans; Dong; Yao; Bai; Hani; Li; and the Kazaks, concentrated in Xinjiang, Gansu, and Qinghai.

The ethnic minorities have been exempt from nationally imposed birth limits; the 1990 census recorded an increase in the minority population of 24.7 million, or 37.1%, since 1982, compared with an increase of 10.9% among the majority Han during the same period. Two or more children per minority couple are generally allowed instead of the one-child norm promoted among the Han.

## 9 LANGUAGES

Chinese, a branch of the Sino-Tibetan linguistic family, is a monosyllabic tone language written by means of characters representing complete words. The Chinese script is not phonetic and remains constant throughout China, but the spoken language has regional phonetic differences. Spoken Chinese falls into two major groups, separated roughly by a northeast-southwest line running from the mouth of the Yangtze River to the border of Vietnam. North and west of this line are the so-called Mandarin dialects, based on the Beijing dialect and known as *putonghua* (“common language”). The most important dialect south of the linguistic divide is that of Shanghai, the Wu dialect spoken in the Yangtze River Delta. Hakka and Hokkien are dialects of the southeastern coastal province. Cantonese, the Yue dialect spoken in southern China, is the language of the majority of Chinese emigrants. Others include the Minbei or Fuzhou dialect, the Xiang, and Gan dialects. Mandarin Chinese was adopted as the official language of China in 1955.

To communicate in written Chinese, thousands of Chinese characters must be memorized. Since the establishment of the PRC in 1949, reform of the written language has been a major priority. A simplified system of writing, reducing the number of strokes per character, has been adopted, and the language restructured so that anyone familiar with the basic 2,000–3,000

characters is functionally literate (defined as being able to read a newspaper).

A number of systems have been developed to transcribe Chinese characters into the Latin alphabet. The principal romanization scheme was the Wade-Giles system until 1979, when the PRC government adopted Pinyin, a system under development in China since the mid-1950s. Inside China, Pinyin is used in the schools to facilitate the learning of Chinese characters, in minority areas where other languages are spoken, and on commercial and street signs. Pinyin has replaced the Wade-Giles system in all of China's English-language publications and for the spelling of place names. In general, pronunciation of Pinyin follows standard American English, except that among initial sounds, the sound of *q* is like the sound of *ch* as in *chart*, the sound of *x* like the sound of *sh* as in *ship*, and the sound of *zh* like the sound of *j* as in *judge*, and among final sounds, the sound of *e* is like the sound of *oo* as in *look*, the sound of *eng* like the sound of *ung* as in *lung*, the sound of *ui* like the sound of *ay* as in *way*, and the sound of *uai* like the sound of *wi* as in *wide*.

Of the 55 recognized minority peoples in China, only Hui and Manchus use Chinese as an everyday language. More than 20 minority nationalities have their own forms of writing for their own languages. Minority languages are used in all state institutions in minority areas and in all newspapers and books published there.

## 10 RELIGIONS

Three faiths—Confucianism, Buddhism, and Taoism—have long been established in China. The religious practice of the average Chinese traditionally has been an eclectic mixture of all three. Confucianism has no religious organization but consists of a code of ethics and philosophy; filial piety, benevolence, fidelity, and justice are among its principal virtues. Taoism, a native Chinese religion that evolved from a philosophy probably founded in the 6th century BC by Lao-tzu (Laozi), and Buddhism, imported from India during the Han dynasty, both have elaborate rituals. Tradition-minded Chinese base their philosophy of life on Confucianism, but such old habits of thought came under strong attack during the Cultural Revolution.

Suppression of religion and the introduction of programs of antireligious indoctrination began in 1949 and intensified, with the closure of temples, shrines, mosques, and churches, from the mid-1960s through the mid-1970s. Overt antireligious activity eased in 1976, and the government reactivated its Bureau of Religious Affairs. The Constitution of 1982 provides for freedom of belief and worship. According to 2002 estimates, Buddhists make up the largest body of organized religious believers, with more than 100 million followers, most of whom are from the dominant Han ethnic group.

Islam claims an estimated 20 million followers, or 2–3% of the population, nearly all are members of the ethnic minority nationalities; most belong to the Sunni branch, but the Tajiks are Shi'as. The tiny Jewish minority has virtually disappeared through emigration and assimilation. It is estimated that when the PRC was founded in 1949 there were up to three million Roman Catholics and 700,000 Protestants in China. As late as 1981, only small numbers of Christians were attending the approximately 80 Protestant and 40 Roman Catholic churches open in urban areas. By the mid-1990s, however, interest in religion was exploding and the number of Christians was increasing rapidly. The increase in the number of Christians has resulted in an increase in the demand for Bibles. In 1998 the government approved the printing of more than three million Bibles, and there are currently more than 18 million Bibles in print. Reports in 2002 indicated that the number of Christians had risen to about 5 million Catholics and 15 million Protestants.

Falun Gong (also known as Falun Dafa) is a combination of Taoism, Buddhism, meditation techniques, and the physical

exercises of quigong. Though spiritual in content, it is considered more of a general practice than a religion, since there are no clergy and no places of worship. The group has been considered a heretical cult by the Chinese government and reports indicate that thousands of adherents have been arrested and imprisoned since 1999. It is believed that several hundred have died while in detention.

## 11 TRANSPORTATION

Railways, roads, and inland waterways all play an important role in China's transportation system, which has undergone major growth since the 1940s. China's rail network forms the backbone of the transportation system. Chinese railways increased in length from 21,989 km (13,663 mi) in 1949 to 67,524 km (41,959 mi) in 2002, of which 13,362 km (8,303 mi) were electrified. In the rush to expand rail facilities during the "Great Leap Forward," the Chinese laid rails totaling 3,500 km (2,175 mi) in 1958; some 4,600 km (2,900 mi) were added in 1959. The construction pace slowed somewhat in the 1960s, but many major projects were completed in the 1970s, including double-tracking of major lines in the east; the electrification of lines in the west, including the 671 km (417 mi) Baoji-Chengdu link; and the addition of several new trunk lines and spurs, many providing service to the country's more remote areas. While the total rail network is more than twice what it was in 1949, the movement of freight is more than 25 times that of 1949. Increased freight volumes have been achieved by loading freight cars up to 20% over their rated capacity and by containerization. Shortages of freight and tank cars continue to delay deliveries of coal and other industrial raw materials to their destinations. In 1991, China invested \$8 billion for infrastructure improvements, including the upgrade of 309 km (192 mi) of double-track railway and the electrification of 849 km (528 mi) of track.

Road transportation has become increasingly important. Motor roads grew from about 400,000 km (249,000 mi) in 1958 to 550,000 km (342,000 mi) in 1964 and to 1.4 million km (869,960 mi) by 2002. About 271,300 km (168,586 mi) were paved, including 16,000 km (9,942 mi) of expressways. Major roads completed in the 1970s included the 2,413 km (1,499 mi) Sichuan-Tibet Highway, the 2,100 km (1,305 mi) Qinghai-Tibet Highway, and the 1,455 km (904 mi) Xinjiang-Tibet Highway. Between 1981 and 1985, 50,000 km (31,000 mi) of highways and more than 15,000 bridges were built. By 2000, an estimated 3,955,272 passenger automobiles used the highway system, up from 50,000 in 1949. In addition, there were some 11,894,272 commercial vehicles operating in the same year. Bicycles are the chief mode of transport in large cities; in Beijing, there are an estimated eight million bicycles, accounting for 83.5% of the city's road traffic.

Navigable inland waterways reached a peak of 161,900 km (100,600 mi) in 1962 and decreased to 110,000 km (68,354 mi) in 2001. About 25% of the waterways are navigable by modern vessels; wooden junks are used on the remainder. The principal inland waterway is the Yangtze River; much work was done in the early 1980s to dredge and deepen the river, to improve navigational markers and channels, and to eliminate the treacherous rapids of the Three Gorges section east of Yibin. Steamboats can now travel inland throughout the year from Shanghai, at the river's mouth, upstream as far as Yibin; 10,000-ton oceangoing vessels can travel inland as far as Wuhan in the high-water season and Nanjing in the low-water season. Major ports on the river include Chongqing, the principal transportation hub for the southwest; Wuhan, its freight dominated by shipments of coal, iron, and steel; Wuhu, a rice-exporting center; Yuxikou, across the river from Wuhu and the chief outlet for the region's coal fields; Nanjing; and Shanghai. The Pearl River is navigable via a tributary as far as Nanning. The ancient Grand Canal, rendered impassable by deposits of silt

for more than 100 years, has been dredged and rebuilt; it is navigable for about 1,100 km (680 mi) in season and 400 km (250 mi) year-round.

China's merchant fleet expanded from 402,000 GRT in 1960 to over 10,278,000 GRT in 1986, and to 16,915,3047 GRT in 2002. China's 1,764 merchant ships of 1,000 GRT or over can accommodate most of the country's foreign trade; the balance is divided among ships leased from Hong Kong owners and from other foreign sources. The principal ports are Tianjin, the port for Beijing, which consists of the three harbors of Neigang, Tanggu, and Xingang; Shanghai, with docks along the Huangpu River channel; Lüda, the chief outlet for the northeast and the Daqing oil field; and Huangpu, the port for Guangzhou, on the right bank of the Pearl River. Other important ports include Qinhuangdao; Qingdao; Ningbo, the port for Hangzhou; Fuzhou; Xiamen; and Zhanjiang.

The Civil Aviation Administration of China (CAAC) operates all domestic and international air services. Operations have grown significantly with the purchase, since the 1970s, of jet aircraft from the United States, United Kingdom, and other Western sources. In 2001 there were 489 airports, of which 324 had paved runways. Principal airports include Capital at Beijing, Shuangliu at Chengdu, Hongqiao at Shanghai, Baiyun at Guangzhou, Wujiaba at Kunming, and Gaoqi at Xiamen. From Beijing there are scheduled daily flights to Shanghai, Guangzhou, Kunming, Chengdu, Shenyang, Changchun, Changsha, Wuhan, Zengzhou, and Harbin. The total scheduled international and domestic service performed in 2001 included 4,232 million freight ton-km (2,630 million freight ton-mi), as well as 72,660,704 passengers carried.

## 12 HISTORY

Fossils attest to hominid habitation in China more than 500,000 years ago, and Paleolithic cultures appeared in the southwest by 30,000 BC. Neolithic peoples appeared before 7000 BC; by 3000 bc there were millet-growing settlements along the Yellow River. The original home of the Chinese (Han) people is probably the area of the Wei, Luo (Lo), and middle Yellow rivers. According to tradition, the Xia (Hsia) dynasty (c.2200–c.1766 BC) constituted the first Chinese state. Its successor, the Shang, or Yin, dynasty (c.1766–c.1122 BC), which ruled over the valley of the Yellow River, left written records cast in bronze or inscribed on tortoiseshell and bone. The Shang was probably conquered by the Western Zhou (Chou) dynasty (c.1122–771 BC), which ruled a prosperous feudal agricultural society. Fleeing foreign attack in 771 BC, the Western Zhou abandoned its capital near the site of Xi'an and established a new capital farther east at Luoyang (Loyang). The new state, known as the Eastern Zhou dynasty (771–256 BC), produced the great Chinese philosophers including Confucius (K'ung Fu-tzu or Kong Fuzi) and the semi-historical figure, Lao Tzu (Lao Zi). Between 475 and 221 BC, the Qin (Ch'in) dynasty (221–207 BC) gradually emerged from among warring, regional states to unify China. Shi Huangdi (Shih Huang Ti, r.221–210 BC), the first Qin emperor (the outer edges of whose tomb, opened in the 1970s, were discovered to contain stunningly lifelike terra-cotta armies), ended the feudal states and organized China into a system of prefectures and counties under central control. For defense against nomadic proto-Mongolian tribes, Shi Huangdi connected walls of the feudal states to form what was later to become known as the Great Wall. By this time, the Yellow River had an irrigation system, and cultivation had begun in the Yangtze Valley; at the end of Shi Huangdi's reign, China probably had close to 40 million people. During the period of the Han dynasties (206 BC–AD 8, AD 25–220), China expanded westward, nomadic tribes from the Mongolian plateau were repelled, and contacts were made with Central Asia, the West, and even Rome. The Han saw the invention of paper. Under the later Han, Buddhism was introduced into China. After the Han

period, the Three Kingdoms (Wei, Shu, and Wu) contended for power, and nomadic tribes from the north and west raided northern China. From the 4th century ad on, a series of northern dynasties was set up by the invaders, while several southern dynasties succeeded one another in the Yangtze Valley, with their capital at Nanjing (Nanking). Buddhism flourished during this period, and the arts and sciences were developed. The empire was reunited by the Sui (589–618) dynasty, which built the Grand Canal, linking the militarily strategic north with the economic wealth of the south and laying the basis for the Tang (T'ang, 618–907) dynasty.

Under the early Tang, especially under Emperor Taizong (T'ai-tung, r.627–49), China became powerful. The bureaucratic system, begun by the Han, was further developed, including the regular use of an examination system to recruit officials on the basis of merit. Handicrafts and commerce flourished, a system of roads radiated from the capital (at the site of Xi'an), successful wars were fought in Central Asia, and China became the cultural and economic center of Asia. Poetry and painting flourished, particularly under Emperor Xuan-Zong (Hsüan-tung, r.712–56). Civil wars and rebellion in the late Tang led to a period of partition under the Five Dynasties (r.907–60) which was followed by the Northern and Southern Song (Song) dynasties (960–1127, 1127–1279), distinguished for literature, philosophy, the invention of movable type, the use of gunpowder in weapons, and the improvement of the magnetic compass. However, Mongol and Tatar tribes in the north forced the Song to abandon its capital at Kaifeng in 1126 and move it to Hangzhou (Hangchow). In 1279, Kublai Khan (r.1279–94) led the Mongols to bring all of China under their control and became the first ruler of the Mongols' Yuan dynasty (1279–1368). The Mongols encouraged commerce and increased the use of paper money. The Grand Canal was reconstructed, and a system of relay stations ensured safe travel. Many European missionaries and merchants, notably Marco Polo, came to the Mongol court.

After a long period of peasant rebellion, Mongol rule was succeeded by the native Chinese Ming dynasty (1368–1644). The famous Ming admiral, Zheng He (Cheng Ho, 1371–1433) led seven naval expeditions into the South China Sea and the Indian Ocean between 1405 and 1433, reaching as far as the east coast of Africa. The Portuguese reached China in 1516, the Spanish in 1557, the Dutch in 1606, and the English in 1637. The Ming dynasty was overthrown by the Manchus, invaders from the northeast, who established the last imperial dynasty, the Qing (Ch'ing or Manchu, 1644–1911). The first century and a half of Manchu rule was a period of stability and expansion of power, with outstanding reigns by Kang xi (K'ang-hsi, 1662–1722) and Qian long (Ch'ien-lung, 1736–96). Although the Manchus ruled as conquerors, they adopted indigenous Chinese culture, administrative machinery, and laws. Under Manchu rule, Chinese territories included Manchuria, Mongolia, Tibet, Taiwan, and the Central Asian regions of Turkestan. The population of over 300 million by 1750 grew to over 400 million a century later.

By the close of the 18th century, only one port, Guangzhou (Canton), was open to merchants from abroad, and trade was greatly restricted. Demands by the British for increased trade, coupled with Chinese prohibition of opium imports from British India, led to the Opium War (1839–42), which China lost. By the Treaty of Nanjing (1842), the ports of Guangzhou, Xiamen (Amoy), Fuzhou (Foochow), Ningbo, and Shanghai were opened, and Hong Kong Island was ceded to Britain. The Taiping Rebellion (1850–64), nearly overthrew the Manchus and cost 30 million lives. A second war (1856–60) with Britain, joined by France, resulted in the opening of Tianjin (Tientsin) to foreign trade. The West's interest then turned from trade to territory. Russia acquired its Far Eastern territories from China in 1860. China's defeat in the Sino-French War (1884–85), in which it came to the defense of its tributary, Vietnam, resulted in the



establishment of French Indo-China. In the First Sino-Japanese War (1894–95), Japan obtained Taiwan, the opening of additional ports, and the independence of Korea (which Japan subsequently annexed in 1910). This was a major turning point and led to the “scramble for concessions.” In 1898, Britain leased Weihai in Shandong and the New Territories (for 99 years) of Hong Kong, Germany leased part of Shandong, Russia leased Port Arthur at the tip of Liaodong Peninsula, and France leased land around Guangzhou Bay in the south. The Boxer Rebellion, an uprising in 1899–1901 by a secret society seeking to expel all foreigners and supported by the Manchu court, was crushed by the intervention of British, French, German, American, Russian, and Japanese troops.

A revolution that finally overthrew Manchu rule began in 1911 in the context of a protest against a government scheme that would have handed Chinese-owned railways to foreign interests. City after city repudiated the Manchus, and in February 1912, the dowager empress, Ci Xi (Tz’u Hsi), signed an abdication document for the infant emperor, Puyi (P’u-yi). The Chinese republic, ruled briefly by Sun Zhongshan (Sun Yat-sen), followed by Yuan Shikai (Yuán Shih-kai), entered upon a period of internal strife. Following Yuan’s death in 1916, the Beijing regime passed into the hands of warlords. The Beijing regime joined World War I on the Allied side in 1917. In 1919, the Versailles Peace Conference gave Germany’s possessions in Shandong to Japan, sparking the May Fourth Movement as student protests grew into nationwide demonstrations supported by merchants and workers. This marked a new politicization of many social groups, especially those intellectuals who had been emphasizing iconoclastic cultural change.

Meanwhile, civil war grew more intense. In the south, at Guangzhou, the Nationalists (Guomindang, Kuomintang) led by Sun Zhongshan in alliance with the Communists (whose party was founded in Shanghai in 1921) and supported by Russia, built a strong, disciplined party. After Sun Zhongshan’s death in 1925, his successor, Chiang Kai-shek (Jiang Jieshi), unified the country under Nationalist rule in 1928 with the capital in Nanjing. In 1927, the Nationalists began a bloody purge of the Communists, who sought refuge in southern Jiangxi Province. Their ranks severely depleted by Nationalist attacks, the Communists embarked on their arduous and now historic Long March during 1934–35. The Communists eventually reached Shaanxi Province in northwestern China, where, under the leadership of Mao Zedong (Tse-tung), they set up headquarters at Yan’an (Yenan). Japan, taking advantage of Chinese dissension, occupied Manchuria (Dongbei) in 1931.

Increasing Japanese pressure against northern China led, in July 1937, to the second Sino-Japanese war, which continued into World War II and saw Japanese forces occupy most of China’s major economic areas. Nationalist China, established in the southwestern hinterland with its capital at Chongqing, resisted with US and UK aid, while the Communists fought the Japanese in the northwest. Japan evacuated China in 1945, and both Communist and Nationalist forces moved into liberated areas. The rift between the two factions erupted into civil war. Although supported by the United States, whose mediation efforts had failed, the Nationalists steadily lost ground through 1948 and 1949, were expelled from the mainland by early 1950, and took refuge on Taiwan.

### The People’s Republic

The Communists, under the leadership of Mao, as chairman of the Chinese Communist Party (CCP), proclaimed the People’s Republic of China (PRC) on 1 October 1949, with the capital at Beijing. A year later, China entered the Korean War (1950–53) on the side of the Democratic People’s Republic of Korea (DPRK). In the fall of 1950, China entered Tibet, which had asserted its independence after the overthrow of the Manchu dynasty, despite

formal claims to it by all subsequent Chinese governments. In 1959, the Dalai Lama fled to India during a Tibetan revolt against Chinese rule. Tibet became an autonomous region in 1965. The Nationalists held, in addition to Taiwan, islands in the Taiwan (Formosa) Strait: the Pescadores, Quemoy (near Xiamen), and the Matsu Islands (near Fuzhou).

In domestic affairs, a rapid program of industrialization and socialization up to 1957 was followed in 1958–59 by the Great Leap Forward, a crash program for drastic increases in output and the development of completely collectivized agricultural communes. The program ended in the “three bad years” of famine and economic crisis (1959–61), which produced 20 million deaths above the normal death rate, followed by a period of restoration and retrenchment in economics and politics. In the early 1960s, Chinese troops intermittently fought with Indian border patrols over conflicting territorial claims in Ladakh and the northeastern Indian state of Assam. Mediation attempts failed, but in 1963, the Chinese withdrew from the contested areas that they had occupied, and war prisoners were repatriated. Meanwhile, growing discord between China and the former Soviet Union had become more open, and in 1960, the USSR withdrew its scientific and technical advisers from China. Public polemics sharpened in intensity in the succeeding years, as the two powers competed for support in the world Communist movement.

After the Chinese economy had recovered in 1965, Mao again steered the country onto the revolutionary path, and gradually he built up momentum for the Great Proletarian Cultural Revolution, one of the most dramatic and convulsive periods in modern Chinese history. It continued until Mao’s death in 1976, but the most tumultuous years were from 1966 to 1969, during which the cities witnessed a chaotic and violent pattern of factional fighting, accompanied by attacks on bureaucrats, intellectuals, scientists and technicians, and anyone known to have overseas connections.

Increasing confrontation between Mao and the party establishment, beginning in the fall of 1965, culminated in August 1966 with the CCP Central Committee’s “16-Point Decision” endorsing Mao’s Cultural Revolution policy of criticizing revisionism. In response to Mao’s initiative, high levels of urban protest demonstrated widespread dissatisfaction with bureaucracies and privilege. In the latter half of 1966, the Red Guard movement of radical students attacked educational and state authorities and split into competing factions. Amid the rising conflict, the party institution collapsed in major cities. Liu Shaoqi, second to Mao in the political hierarchy and Chairperson of the People’s Republic, was ousted from power as the chief target of the Cultural Revolution. In 1968, Liu was formally dismissed from all positions and expelled from the party. He died at the end of 1969. From January 1967 through mid-1968, the discredited political establishment was replaced by Revolutionary Committees, comprised of the new radical organizations, the officials who remained in power, and representatives of the army. Finally, the army was told to restore order. In 1968 and 1969, students were sent out of the cities into the countryside. Colleges did not reopen until 1970. At the Ninth Party Congress in April 1969, the military’s role was confirmed when Lin Biao, the Minister of Defense, was named Mao’s successor.

Estimates place the number of dead as a direct result of the Cultural Revolution from 1966 to 1969 at 400,000. Much of the countryside, however, was unaffected and the economy, despite a setback in 1968, suffered little. The remaining years of the Cultural Revolution decade, up to 1976, were marked by a legacy of struggles over policies and over political succession to the aging Mao (83 at his death in 1976). In September 1971, Lin Biao died in a plane crash, allegedly while fleeing to the former USSR following an abortive coup. The decade from 1966 to 1976

left persistent factionalism in Chinese politics and a crisis of confidence, particularly among the young.

These years of domestic upheaval also brought profound changes in international alignments. In 1969, Chinese and Soviet forces clashed briefly along the Amur River frontier of eastern Heilongjiang Province. Throughout the late 1960s and early 1970s, China played a major role in supporting the Democratic Republic of Vietnam (North Vietnam) in the Vietnamese conflict. In November 1971, the PRC government replaced Taiwan's Nationalist government as China's representative at the UN and on the Security Council, following a General Assembly vote of 76–35, with 17 abstentions, on 25 October. Following two preliminary visits by US secretary of state Henry Kissinger, President Richard M. Nixon journeyed to China on 21 February 1972 for an unprecedented state visit, and the two countries took major steps toward normalization of relations as the two nations sought common ground in their mutual distrust of Soviet intentions. In the period following the Nixon visit, US-China trade accelerated, and cultural exchanges were arranged. In May 1973, the two countries established liaison offices in each other's capital and full diplomatic relations were established by 1979.

In 1975 at the Fourth National People's Congress, Zhou Enlai (Chou En-lai) announced a reordering of economic and social priorities to achieve the Four Modernizations (of agriculture, industry, national defense, and science and technology). Factional strife reminiscent of the late 1960s emerged between radical party elements led by Mao's wife, Jiang Qing (Chiang Ch'ing), and three associates (later collectively dubbed the Gang of Four), who opposed the modernization plans, and veteran party officials, such as Deng Xiaoping (previously associated with Liu Shaoqi and restored to power in 1973), who favored them. When Zhou died on 8 January 1976, the radicals moved to block the appointment of Deng (Zhou's heir apparent) as premier, with Mao resolving the impasse by appointing Hua Guofeng, a veteran party official and government administrator, as acting premier. Attacks on Deng continued until he was blamed for spontaneous disorders at a Beijing demonstration honoring Zhou on the Festival of the Dead, 5 April 1976 and, for the second time in his career, Deng was removed from all official positions.

### After Mao

When Mao Zedong died on 9 September 1976, Hua Guofeng was quickly confirmed as party chairman and premier. A month later, the Gang of Four was arrested, and in early 1977, the banished Deng Xiaoping was again "reinstated." By 1978, Deng Xiaoping had consolidated his political dominance, and a new era of economic reforms began. The Third Party Plenum and the Fifth National People's Congress in 1978 adopted a new constitution and confirmed the goals of the Four Modernizations. Another new constitution in 1982 again confirmed policies of economic reform and emphasized legal procedure. The Cultural Revolution was officially condemned and Mao's historical role reevaluated. After a show trial from November 1980 to January 1981, the Gang of Four, together with Mao's former secretary and five others associated with Lin Biao, were convicted of crimes of the Cultural Revolution. Jiang Qing, whose death sentence was commuted to life imprisonment, committed suicide in 1991 after being diagnosed with cancer.

In 1980, Zhao Ziyang, a protégé of Deng Xiaoping, replaced Hua Guofeng as premier, and Hu Yaobang, another Deng protégé, became general secretary of the CCP while Hua resigned as party chairperson (a position which was abolished) in 1981. The 1980s saw a gradual process of economic reforms, beginning in the countryside with the introduction of the household responsibility system to replace collective farming. As the rural standard of living rose, reforms of the more complex urban economy began in the mid-1980s in an attempt to use the economic levers of the market instead of a command system of

central planning to guide the economy. These included, with varying degrees of success, reforms of the rationing and price system, wage reforms, devolution of controls of state enterprises, legalization of private enterprises, creation of a labor market and stock markets, the writing of a code of civil law, and banking and tax reforms. At the same time, the Chinese pursued a policy of opening toward the outside world, establishing Special Economic Zones, and encouraging joint ventures and foreign investment.

In the 1980s and 1990s, China attempted to settle its relations with neighboring states. After a border clash with Vietnam in 1979, there were agreements with Great Britain in 1984 for the return of Macau, a Portuguese colony since the 16th century, in 1999. In May 1989, Soviet President Mikhail Gorbachev visited Beijing in the first Sino-Soviet summit since 1959. Top Vietnamese leaders came to China in 1991, normalizing relations between the two countries after a gap of 11 years. In the early 1990s, China and South Korea established regular relations.

Until 1989, economic reforms were accompanied by relatively greater openness in intellectual spheres. A series of social and political movements spanning the decade from 1979 to 1989 were critical of the reforms and reacted to their effects. In the Democracy Wall movement in Beijing in the winter of 1978–79, figures like Wei Jingsheng (imprisoned from 1979 to 1994 and subsequently reimprisoned) called for democracy as a necessary "fifth modernization." A student demonstration in Beijing in the fall of 1985 was followed in the winter of 1986–87 with a larger student movement with demonstrations of up to 50,000 in Shanghai, Beijing, and Nanjing, in support of greater democracy and freedom. In June 1987, blamed for allowing the demonstrations, Hu Yaobang was dismissed as party General Secretary, and several important intellectuals, including the astrophysicist Fang Lizhi and the journalist Liu Binyan, were expelled from the party. At the 15th Party congress of November 1987, many hard-line radicals failed to retain their positions, but Zhao Ziyang, who was confirmed as General Secretary to replace Hu, had to give up his position as Premier to Li Peng. By the end of 1988, economic problems, including inflation of up to 35% in major cities, led to major disagreements within the government, resulting in a slowdown of reforms. In December 1988, student disaffection and nationalism were expressed in a demonstration against African students in Nanjing.

On 15 April 1989, Hu Yaobang died of a heart attack. Students in Beijing, who had been planning to commemorate the 70th anniversary of the May Fourth Movement, responded with a demonstration, ostensibly in mourning for Hu, demanding a more democratic government and a freer press. Student marches continued and spread to other major cities. The urban population, unhappy with high inflation and the extent of corruption, largely supported the students and, by 17 May, Beijing demonstrations reached the size of one million people, including journalists, other salaried workers, private entrepreneurs and a tiny independent workers' organization, as well as students. On 19 May, martial law was imposed to no effect, and the government attempted to send troops to clear Beijing's Tiananmen Square, where demonstrators were camped, on 19–20 May and 3 June. Finally, in the early hours of 4 June 1989, armed troops, armored personnel carriers, and tanks, firing on demonstrators and bystanders, managed to reach the Square. Firing continued in the city for several days, and estimates of the total number killed range from 200 to 3,000. The events of 4 June sparked protests across the country, and thousands were arrested as the movement was suppressed. On 24 June, Zhao Ziyang was dismissed as General Secretary and Jiang Zemin, the mayor of Shanghai, was named in his place.

Parallel to but separate from the student movements were ongoing demonstrations by ethnic minorities. The most visible were those of the Tibetans, due to their international connections, but there have also been protests by other minorities, such as

Muslims in Xinjiang province. Violent Tibetan demonstrations in the fall of 1987 and spring of 1988 were forcibly suppressed, and from March 1989 to April 1990, martial law was imposed in Lhasa, Tibet.

Following 4 June 1989, economic reforms were curtailed and some private enterprises closed down as the leadership launched an anticorruption drive. Ideological expression, higher education, and the news media were more tightly controlled in the ensuing years. The move toward a market-oriented economy began again, with increased speed, after Deng Xiaoping made a publicized visit in the spring of 1992 to the most developed areas in southern China. China's economy became one of the most rapidly growing in the world but continued to be plagued by inflation, corruption, and a growing disparity among the provinces. With a high rate of tax evasion, state revenues were shrinking and one-third went to subsidize state enterprises. Having been at the forefront of change in the early 1980s, peasants in the early 1990s were being left behind. In 1993 and 1994, there were peasant protests and riots over receiving IOUs for their produce and over local corruption. There were workers' disputes and strikes (250,000 between 1988 and 1993) in response to low pay and poor working conditions.

Labor unrest continued into 1997 as thousands of workers in several impoverished inland provinces rioted when promises of back pay went unfulfilled. A March 1997 labor protest involving 20,000 workers in Nanchong was the largest since the Communist revolution.

China's uneven economic development also led to the growth of a migrant worker class. By 1996, it was estimated that some 100 million peasants left their homes in northern and western provinces in search of menial work along the coast.

Unrest also flared anew in Tibet and other border provinces. A Muslim uprising in Xinjiang, near Kazakhstan, was met with force by the Chinese military in February 1997, leaving an estimated 100 ethnic Uygur and 25 Chinese dead. But the situation in Tibet posed the most difficulty for Beijing. China's efforts to control Tibet and dilute its culture led in 1995 to the indefinite detention of the six-year-old boy chosen by the exiled Dalai Lama as his reincarnation, or Panchen Lama. Beijing selected another six-year-old and forced Tibetan leaders to accept him.

In September 1997, the CCP's 15th National Congress elected a Central Committee, which selected the 22-member Politburo. Jiang Zemin became the General Secretary of the party in addition to his title of President. Li Peng was appointed Prime Minister, and Zhu Rongji, Deputy Prime Minister. During this Congress, political power was consolidated in the triumvirate, with Jiang Zemin officially taking the deceased Deng Xiaoping's position.

As the government prepared for the 50th Anniversary of the proclamation of the People's Republic of China, it witnessed the return of Hong Kong (1 July 1997) and Macau (20 December 1999). Both former colonies were designated Special Administrative Regions (SAR) and Jiang stated that each SAR would continue to operate with considerable degree of economic autonomy.

Also in 1999, Chinese nationalism increased with the US bombings of the Chinese Embassy in Belgrade, Yugoslavia in May as an outpouring of government sanctioned anti-American demonstrations took place in Beijing. Despite rising nationalism, the political leadership felt threatened by a small but rapidly growing religious sect, the Falun Gong. On 22 July 1999, Chinese authorities banned the sect and arrested its leaders despite international human rights watch groups' criticism. The country celebrated its 50th anniversary on 1 October 1999 with a 500,000-person military parade showcasing its new technological achievements in armaments.

In February and March 1996, China test-fired missiles near Taiwan's two main ports, which caused the United States to send

two aircraft carrier groups to the Taiwan Strait. It was the largest US naval movement in the Asia-Pacific region since the Vietnam War. The missile firings and accompanying military exercises were considered to be responses to Taiwan's presidential elections of March 1996, which President Lee Teng-hui, whom China accused of supporting Taiwanese independence, won.

In the run-up to Taiwanese presidential elections in March 2000, Chen Shui-bian of the Democratic Progressive Party, the eventual winner, issued pro-independence campaign speeches advocating "one country on each side", contradicting China's "one-country, two systems" policy. In March 2000, Zhu Rongji, the Deputy Prime Minister, warned Taiwan and the United States that Taiwanese independence could lead to armed conflict. A Chinese newspaper also quoted a government white paper stating that war with the United States is inevitable in the future and that if the United States intervened on behalf of Taiwan, the Chinese may use nuclear weapons. Meanwhile, China began construction of military bases on the mainland across the Taiwan Strait. In 1996, China had fewer than 50 short-range missiles within striking distance of Taiwan. As of April 2002, it was estimated that China's military forces had more than 350 missiles in the region.

On 1 April 2001, a US Navy EP-3 reconnaissance aircraft survived a mid-air collision with a Chinese F-8 fighter jet over the South China Sea. The Chinese fighter pilot was lost. The EP-3 conducted an emergency landing on Hainan Island, and the 24-member crew was detained there for 11 days in a standoff between the two countries. The United States and China blamed each other's aircraft for the crash. The EP-3 was later disassembled for transport back to the United States.

China expressed deep sympathy to the United States following the 11 September 2001 terrorist attacks on the World Trade Center in New York and the Pentagon in Washington, D.C. It has backed the American-led war on terrorism, and cited its own problems with what it considers to be terrorist activities led by ethnic Uighurs fighting for an independent homeland in the northwest Xinjiang province. As of March 2002, China had detained thousands of Uighurs since 11 September 2001.

On 11 December 2001, China formally became a member of the World Trade Organization, representing international recognition of China's growing economic power. Several non-governmental organizations and individuals world-wide protested China's accession to the body, due to its record on human rights violations.

In November 2002, China and the ten members of ASEAN signed an accord to resolve any conflicts over the Spratly Islands without armed force. The Spratlys are claimed by China, Taiwan, Brunei, Malaysia, the Philippines and Vietnam, and are home to some of the world's busiest shipping lanes; they are also believed to be rich in oil and natural gas. Signatories to the accord agreed to cease further occupation of the islands, to help anyone in distress in the area, to exchange views with one another on defense issues, and to give advance warning of military exercises.

At the 16th Communist Party Congress held 8–14 November 2002, what is considered to be a "fourth generation" of Chinese leaders emerged, led by Hu Jintao, Jiang Zemin's replacement as Communist Party General Secretary. In addition to Hu, the other eight members of the 9-member Politburo Standing Committee were new appointees. Jiang Zemin retained the position of head of the party's Central Military Commission, and was to keep the office of President until March 2003. China voted in favor of UN Security Council Resolution 1441 on 8 November 2002, which required Iraq to immediately disarm itself of weapons of mass destruction (chemical, biological, and nuclear weapons), to allow UN and International Atomic Energy Agency (IAEA) arms inspectors into the country, and to comply with previous UN resolutions regarding Iraq. The final text of the resolution included modifications in the original wording which had

concerned China, along with France and Russia, whose representatives said the wording might be used by the United States as a “hidden trigger” for an attack on Iraq.

Leading pro-democracy activist Xu Wenli, jailed since 1998 on charges of endangering state security, was released from a 13-year prison sentence on 24 December 2002, and was flown to the United States for medical treatment. Xu was arrested for attempting to establish the opposition China Democracy Party with other activists.

### 13 GOVERNMENT

On 4 December 1982, China adopted its fourth constitution since 1949, succeeding those of 1954, 1975, and 1978. In theory, the highest organ of state power is the National People’s Congress (NPC), in which legislative power is vested. The constitution stipulates, however, that the congress is to function under the direction of the Chinese Communist Party. The NPC meets annually for about two weeks to review major new policy directions, to adopt new laws, and to approve the national budget submitted to it by the State Council. Each congress consists of more than 3,000 deputies elected indirectly for a term of five years. The NPC elects a standing committee as its permanent working organ between sessions. The State Council, the executive organ of the NPC, consists of a premier (the head of government), five vice-premiers, ministers, and heads of other major government agencies. The State Council issues administrative regulations and both formulates and executes the economic plan and the state budget. The 1982 constitution restored the largely ceremonial post of state chairman, or president, a position abolished by Mao Zedong in 1968. The eighth National People’s Congress, in March 1993, elected Jiang Zemin as president and reelected Li Peng, first elected in 1988, to a second five-year term as premier. At the ninth National People’s Congress in March 1998, Li Peng was elected chairman of the NPC standing committee, and Zhu Rongji became premier. Since the 1980s, the NPC has slowly increased its function as a locus for discussion of issues instead of merely being a rubber stamp. The 1992 debate on the Yangtze River (Chang Jiang) dam project is an example of this.

The death of Communist Party patriarch Deng Xiaoping in February 1997 brought to a head the infighting between Jiang Zemin, Li Peng, and Zhu Rongji. At the 15th party congress, Jiang was chosen to succeed Deng Xiaoping. The political leadership settled into one of shared leadership. At the 16th party congress held in November 2002, Jiang Zemin, Li Peng and Zhu Rongji resigned their posts in the Politburo standing committee, and the three were expected to give up their positions as president, chairman of the NPC standing committee, and premier, respectively, at the 10th NPC to be held in March 2003.

### 14 POLITICAL PARTIES

The Chinese Communist Party (CCP) has been the ruling political organization in China since 1949. Eight other minor parties have existed, since 1949, as members of a United Front, but their existence has been purely nominal. The party, with 55 million members (1999 estimate), plays a decisive role in formulating broad and detailed government policies and supervising their implementation at all levels of administration. Party supervision is maintained not only through placement of CCP members in key government posts, but also through specialized organs of the central committee of the CCP, which focus their attention on given subjects (e.g., propaganda or rural work). The CCP also forms branches within individual government units, as well as in factories, communes, schools, shops, neighborhoods, and military units.

Theoretically, the highest organ of party power is the National Party Congress, which usually meets once every five years. At each party congress a central committee is elected to oversee

party affairs between sessions. The central committee (356 members elected in 2002—198 full members and 158 alternate members) meets annually in plenary session to elect a political bureau, or Politburo (with 24 members as of 2002), and its standing committee, the party’s most powerful organ (9 members in 2002). Directing day-to-day party affairs at the highest level is the secretariat, headed by Hu Jintao as general secretary since November 2002. In 1982, the post of party chairman, formerly the most powerful in the nation, was abolished; the title had been held by Mao Zedong until his death in 1976, by Hua Guofeng from 1976 until his ouster in 1981, and by Hu Yaobang thereafter.

Deng Xiaoping, China’s acknowledged political leader since 1977, retired from the central committee in 1987, retired as chairperson of the party’s central military commission in 1989, and retired as chairperson of the state’s central military commission, his last formal position, in 1990. A new CCP charter adopted at the 12th Communist Party congress in September 1982 forbids “all forms of personality cult” and, in an implicit criticism of Mao, decrees that “no leaders are allowed to practice arbitrary individual rule or place themselves above the party organization.” A major purge of party members in the early 1980s sought to exclude elements opposed to Deng’s modernization policies. A re-registration program applicable to all party members, about half of whom were believed to have joined during the Cultural Revolution, was announced in 1983. The 13th party congress, convened in October 1987, affirmed Deng’s reform policies and the drive for a younger leadership.

In the wake of the June Fourth massacre in 1989, Deng Xiaoping declared that Jiang Zemin, former mayor of Shanghai, should be the “core” of collective leadership after Deng’s death. The Politburo announced prohibitions, largely ineffectual, against some forms of party privileges and nepotism, the corruption that had sparked the 1989 protests. The 14th party congress in October 1992 removed Yang Shangkun, state president (1988–1993), from the Politburo, weakening the power of his clique in the military. In 1993, the National People’s Congress reelected Jiang Zemin, already party general secretary, as chairperson of the central military commission and elected him as state president. This was the first time since the late 1970s that top, formal positions in the party, government, and military were concentrated in one leader’s hands.

After the 15th Communist Party congress, a highly publicized anticorruption drive resulted in the execution of several prominent cases. In addition, Jiang began to remove the Communist Party from state owned enterprises through an aggressive privatization strategy. In 2000, Jiang introduced a theory revamping the image of the Communist Party. Called the “three represents,” it was written into the party constitution at the 16th Party congress in November 2002. Seen as a re-orientation of the party away from its sole mission to serve the proletariat, the theory of the “three represents” emphasizes the importance of the middle class, stating that the party will represent not only workers and peasants, but the “advanced productive forces, advanced culture and the broad masses of the people.” The inclusion of Jiang’s theory at the party congress was an affirmation of the considerable influence Jiang continues to hold in China, despite his resignation as General Secretary in favor of Hu Jintao. Hu, slated to become state president at the National People’s Congress in March 2003, was a protégé of Deng Xiaoping, chosen as the “core” of the younger generation. Seen as moderate and cautious, he is expected to proceed with Jiang’s slow, but steady, policy of economic liberalization, and perhaps to introduce some administrative and political reform.

### 15 LOCAL GOVERNMENT

The People’s Republic of China (PRC) consists of 22 provinces (*sheng*) (the PRC claims Taiwan as its 23rd province), five

autonomous regions (*zizhiqu*), and four centrally administered municipalities (*zhixiashi*). Provinces and autonomous regions, in turn, are divided into “special districts,” counties (*xian*), and cities (*shi*) under provincial jurisdiction, as well as into autonomous minor regions (*zhou*) and autonomous counties (*zizhixian*), where non-Han Chinese minority groups reside. Counties, autonomous counties, and autonomous zhou are divided into townships (*xiang*), autonomous townships (for small minority groups), towns, and rural communes. Hong Kong and Macau are designated as Special Administrative Regions (SAR).

From 1958 to 1982, local administrative authority formerly held by the *xiang* was transferred to the communes and their local people’s councils. In 1988, Hainan Island, formerly part of Guangdong, was made China’s newest province. The 1982 constitution returned local administrative control to the *xiangs* as the communes began to be disbanded. Local revolutionary committees, which replaced the local people’s councils during the Cultural Revolution and under the 1975 constitution, were abolished in 1980. The restored local people’s councils have the power to formulate local laws and regulations. The local people’s governments are administrative organs of the state and report to the State Council.

In the 1980s an emphasis was placed on recruiting and promoting younger and better educated officials in local party and government posts. Many provinces along the coastal regions have adopted more decentralized forms of administration while interior provinces remain highly beholden to the central party. Local elections involving multiple candidates have taken place, especially in the more urbanized coastal areas. Elections began on a trial basis in 1987, and in over 730,000 villages, peasants are scheduled to go to the polls every three years to elect local committees.

## 16 JUDICIAL SYSTEM

China’s legal system, instituted after the establishment of the PRC in 1949, is largely based on that of the former USSR. However, after 1957, Mao Zedong’s government consistently circumvented the system in its campaign to purge the country of rightist elements and “counter-revolutionaries.” The Ministry of Justice was closed down in 1959, not to reopen until 1979, and the excesses of the Cultural Revolution wrought havoc on legal institutions and procedures. Efforts to reestablish a credible legal system resumed in 1977 (when there were no lawyers in China), as party moderates came to power. These efforts were accelerated in the early 1980s as China sought to provide the legal protection required by foreign investors.

The highest judicial organ is the Supreme People’s Court, which, with the Supreme People’s Procuratorates, supervises the administration of justice in the basic people’s courts and people’s tribunals (courts of first instance), intermediate people’s courts, and higher people’s courts. The judiciary is independent but subject to the Communist Party’s policy guidance. The legal profession was still in an incipient stage of development in the mid-1980s. Over 25 law departments at universities and four special schools for training legal officials were in operation in 1987, when China had 26,000 lawyers. By 1993, there were 70,000 lawyers with plans to increase this number to 150,000.

A major anticrime campaign during the autumn of 1983 resulted in public executions at the rate of at least 200 a month; capital punishment may be meted out for 65 offenses, including embezzlement and theft. Under the Chinese criminal codes, as revised in 1979, local committees may sentence “hoodlums” to terms in labor camps of up to four years, in proceedings that grant the suspect no apparent opportunity for defense or appeal. Government records for 1990 indicated that nearly 870,000 persons were assigned to such camps during the 1980s. Since 1990, sentences to labor camps may be judicially challenged

under the Administrative Procedures Law. In practice the review of such a sentence is rarely sought.

Due process rights are afforded in the 1982 Constitution, but they have limited practical import. The Criminal Procedural Law requires public trials, with an exception for cases involving state secrets, juveniles, or personal privacy. Cases are rapidly processed and conviction rates are about 99%. The 1976 Criminal Code contained 26 crimes punishable by death. A 1995 law raised this number to 65, including financial crimes such as passing fake negotiable notes and letters of credit, and illegal “pooling” of funds. Appeal is possible but with little chance of success. However in 1996, the National Peoples’ Congress passed new legislation to reform criminal procedure and the legal profession. The new legislation recognized for the first time that lawyers represent their clients, not the state. Under the new system lawyers may establish private law firms. Defendants may also ask near relatives or guardians to provide additional defense.

Amendments to the criminal procedure became effective in January 1997. The amendments state that suspects may retain a lawyer after being first interrogated by an investigative organ. Attorneys may conduct limited investigation, call defense witnesses, and argue their client’s cases in open court. According to the amendments defendants will enjoy a presumption of innocence.

Beginning in 1998, the government began a comprehensive “internal shake-up” of the judiciary, resulting in the punishment or dismissal of over 4,200 judicial branch employees. In January 1999, the former head of the Anticorruption Bureau of the Supreme People’s Procuratorate was dismissed for corruption.

China’s entry into the World Trade Organization (WTO) in December 2001 has caused China to undertake a full-scale revision of its laws and regulations in order to adhere to WTO rules. In opening its market up to sectors involving finance, insurance, telecommunications, commerce, transportation, construction, tourism, and other services, China will require its judicial system to perform in accordance with international standards.

As of January 2003, China’s lawyers were adhering to a new policy to wear black suits in court, in an attempt to promote professionalism and as a step toward integration with international practices.

## 17 ARMED FORCES

Active military forces include some 2,270,000 personnel and another 500–600,000 reserves. China has been modernizing the military at a rapid pace even as it reduces personnel. The army consists of 1,600,000 in seven military regions. The Chinese navy consists of 250,000 personnel, including 10,000 marines. The airforce has 420,000 personnel including strategic forces. Chinese military strength includes an enormous amount of equipment including nuclear capability. It is suspected that China possesses 410 strategic and non-strategic nuclear weapons. There are more than 100,000 offensive missile forces including ICBMs and IRBMs. The Chinese have over 7,000 tanks, 69 submarines, 21 destroyers, and more than 2,000 combat aircraft. The paramilitary in China includes about 1,500,000 members of the people’s armed police. The Chinese are involved in UN and Peacekeeping missions in 6 regions around the world.

Chinese defense spending for 2002 was reported to be \$20 billion, but a more accurate estimate is \$45–\$65 billion. This amounts to 1.6% of GDP, or 3.5–5% of GDP.

## 18 INTERNATIONAL COOPERATION

China has held a seat in the UN since 24 October 1945. After the Communist victory in 1949, UN representation was exercised by the Republic of China (ROC) government on Taiwan until November 1971, when the PRC replaced the ROC in the world organization and its member agencies. As of January 1988, the

PRC belonged to ESCAP and all the nonregional specialized agencies. The PRC displaced the ROC in the IBRD and IMF in 1980. China is a signatory to the Law of the Sea and acceded to WTO membership on 11 December 2001.

The United States extended recognition to China on 15 December 1978 and resumed full diplomatic relations as of 1 January 1979. Continued US links with Taiwan in the 1980s, however, remained an irritant in US-PRC relations. The future of Hong Kong, for which part of the lease (the New Territories) expired in 1997, dominated UK-Chinese discussions, and in 1986, an agreement to give Hong Kong back to China in 1997 was formally signed. Relations with the USSR, severed during the Sino-Soviet split in the 1960s, improved somewhat in the 1980s but remained strained over China's support of anti-Soviet forces in Cambodia and Afghanistan. By the end of 1985, more than 130 nations had extended full diplomatic recognition to the PRC, with a parallel drop to about 10 in the number recognizing Taiwan's government. By the mid-1980s, the PRC had achieved normal relations with most of its Asian neighbors, including Japan, India, Pakistan, Malaysia, Thailand, and Singapore. Relations with Vietnam, Cambodia, and Laos (all allies of the former USSR) were tense after the late 1970s, but improved in the 1990s. At the Eighth Summit of the Association of Southeast Asia Nations held in November 2002, China forgave the debts of Vietnam, Laos, Myanmar and Cambodia. Following the collapse of the Soviet Union in late 1991, China established diplomatic relations with the republics of the former Soviet Union. China normalized relations with the Republic of Korea in 1992. At an "ASEAN+3" (China, Japan, and the Republic of Korea) summit meeting held in November 2000, the three countries agreed to promote human and cultural exchanges between them. As of January 2003, a proposed ASEAN-China Free Trade Area was being planned, to begin in 2010.

## 19 ECONOMY

Traditional China was predominantly agricultural. Adhering to farming patterns developed over a score of centuries, China could sustain a harsh level of self-sufficiency, given surcease from natural calamities. For almost three decades prior to 1949, the incessant ravages of civil disorder, foreign (principally Japanese) invasion, and gross economic neglect virtually decimated China's frail abilities to sustain itself. The first task of the new PRC government thus was to restore the flow of natural resources to prewar levels. By the early 1950s, the government had succeeded in halting massive starvation. Almost all means of production and distribution were brought under state control, and vast parcels of land were redistributed to the peasantry. During 1953–57, China's first five-year plan stressed heavy industry. Economic development was aided by imports of machinery and other industrial equipment from the former USSR and East European countries. In return, China exported agricultural produce to them. A major geological prospecting drive resulted in the discovery of mineral deposits that provided a major thrust toward industrialization.

The Great Leap Forward of 1958–59 initially produced sharp gains in industry and agriculture, but the zeal for increased quotas quickly resulted in undue strain on resources and quality. The Great Leap was followed by "three bitter years" of economic crisis brought on by bad harvests and the economic dislocation of the previous period. By 1961, the GNP had fallen to an estimated \$81 billion, roughly the level reached in 1955. By 1965, however, a readjustment of expectations, coupled with a careful program of industrial investment, helped the economy to recover. China's trade patterns, meanwhile, had shifted radically away from the USSR and toward Japan and Western Europe.

During the late 1960s, in the Cultural Revolution period, long-range central economic planning was abandoned in favor of policies promoting local self-reliance. Self-sufficiency in grain

production was particularly stressed. The negative impact of this emphasis on agricultural development, together with the turmoil of the Cultural Revolution, resulted in a drop in industrial production of 10–20%, while agricultural output, aided by good weather, improved only marginally.

The sixth five-year plan (1981–85), adopted in 1982, reflected this new pragmatic approach to economic development by emphasizing agriculture, light industry, energy, and improved transportation facilities. During the 1980s, the Chinese economy underwent a major restructuring under the leadership of Zhao Ziyang. Rural reforms launched in 1979, which linked remuneration to output and centered on household responsibility, had a profound and beneficial impact on the rural economy, and output and income rose to record levels for rural residents. The commune system was disbanded in 1983–84 and replaced by a system of townships, and the household or family became the main unit of rural production. In the wake of the success of these rural reforms, the CCP Central Committee published "A Decision on the Reform of the Economic Structure" in October 1984, with the goal of totally overhauling the national economy and bringing urban industrial organization in line with rural practice. The main points of the decision were that all urban enterprises would be responsible for their own profits and losses, managers would have greater decision-making authority, and national and local governments would relinquish direct control over enterprises and assume a regulatory and supervisory position. Remuneration would be based on productivity, subsidies would be abolished, wages and prices would find their own level, and private and collective enterprises would be encouraged. Centralized planning resumed in 1970 with Zhou Enlai's announcement of key goals for the fourth five-year plan (1971–75), including an increase in grain output. The fifth five-year plan (1976–80), disrupted during the political upheaval that followed the deaths of Mao and Zhou in 1976, was restructured in 1978 to embody the Four Modernizations, with the use of Western technology as necessary. At the same time, a 10-year plan (1975–85) calling for the traditional expansion of agriculture and heavy industry was revamped to emphasize the growth of light industries and the accelerated development of industrial raw materials. Trade with the US expanded after full diplomatic relations were restored in 1979, and four special economic zones were established as centers for foreign investment.

The seventh five-year plan (1986–90) made reform its paramount concern. The reforms put forth in 1984 and firmly anchored in the 1988 Enterprise Law proved remarkably successful, leading to much higher rates of industrial and general economic growth than previously expected. Real GNP grew by an average of 9.6% annually between 1979–1988, reaching 11% in 1988. By this time, however, indicators of a seriously overheated economy were also clearly emerging; inflation accelerated to 20.7% and shortages in raw material and energy supply as well as transportation capacity rapidly worsened. Growth fell to only 4% in 1989 before austerity measures initiated by the government brought inflation to below 10% and eventually restored growth to double digit levels.

Infrastructure development was given special priority in the China's eighth plan covering 1991–1995. During this period economic growth accelerated, averaging more than 10% annually, giving China one of the fastest growing economies in the world. With growth came rising inflation and infrastructural bottlenecks which highlighted the need for further improvements in macroeconomic management. The 1996–2000 economic plan, which called for economic growth of 9–10% through 2000, reaffirmed the importance of the private sector and opening the economy to the outside world. To attract and maintain foreign investors China needed to reform its legal and financial institutions. Despite the government's endorsement of market

reforms, the plan continued to affirm the role of state-owned enterprises, which still accounted for more than one-third of total industrial output. In 1996, China committed two-thirds of fixed-asset investment to state-owned enterprises even though most were heavily in debt. By propping up the state sector China risked continuing budget deficits and the higher debt service that came with the borrowing necessary to pay for those expenditures. Investment in the state sector accounted for nearly all of the new investment in 1998, in the form of a special infrastructure-spending package forwarded by the government, supporting a GDP growth rate of 7% in 1999. Economic growth, which slowed during the late 1990s, was expected to rebound after China gained entrance to the WTO.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 China's gross domestic product (GDP) was estimated at \$6 trillion. The per capita GDP was estimated at \$4,600. The annual growth rate of GDP was estimated at 8%. 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 18% of GDP, industry 49%, and services 33%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$556 million, accounting for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$912 million. Foreign aid receipts amounted to about \$1 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$399. 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%. The richest 10% of the population accounted for approximately 30.4% of household consumption and the poorest 10% approximately 2.4%. It was estimated that in 2001 about 10% of the population had incomes below the poverty line.

## 21 LABOR

In 2000, China's labor force was 706 million. In 2001, 50% of civilian employment was in agriculture, 23% in industry; and 27% in services. Unemployment in urban areas was about 10% in 2002, with substantial unemployment and underemployment in rural areas.

China's labor policies have vacillated since 1949 between "to each according to his need," operative during the Great Leap Forward and the Cultural Revolution, and "to each according to his work." The first gave rise to job security—known as the "iron rice bowl" in China—but was generally associated with falling output. In 1978, a new economic formula, known as the "responsibility system," called for agricultural and industrial workers to sign a contract to produce a fixed amount of goods but provided for disposal on the free market for goods produced in excess of contractual levels.

On 27 December 1966, forces within the Cultural Revolution dissolved the All-China Federation of Trade Unions (ACFTU), previously the only nationwide labor organization. Some of its functions were then carried on by "revolutionary" organizations set up in factories, and by workers' congresses and trade unions organized on municipal and provincial levels. Strikes and lockouts became widespread during the Cultural Revolution. Other labor problems encountered during this period were "economism" among workers (i.e., emphasis on wages, bonuses, awards, and benefits, and appropriating factory funds and facilities under various pretexts); breakdowns in labor discipline

(referred to as "anarchy"); disorders from fights between rival workers' factions (called "factionalism"); and slowness in developing sensitivity to nonmaterial incentives, as required by the prevailing ideology. Signs of labor unrest stemming from low wages and many of these same issues reemerged during 1974, bringing on notable disruptions among railway workers; in 1975, labor clashes in Hangzhou led to the calling in of the military. In October 1976, the ACFTU was restored to power. A new constitution of trade unions was adopted in 1978 and subsequently revised in 1982 to permit workers the right to strike when conditions are hazardous; strikes for purely economic advantages are forbidden, however.

As of 2002, the Communist Party-Controlled ACFTU was the country's sole labor confederation. It had 16 industry-based, and 31 province-based member unions, as well as 586,000 grassroots-level unions. Over 90% of the ACFTU's reported 103 million members worked in state-owned enterprises. Independent trade unions are illegal, although some allegedly exist in secrecy. Organization and protection of workers is especially difficult in the huge number of rural agricultural laborers. Union officials working outside the official confines of the ACFTU have reported being harassed and detained by authorities. Any union activity outside of the ACFTU is deemed "illegal" by the authorities. However, there is a rise in labor disputes with the changing economy.

There is a minimum working age of 16 but compliance with this is irregular, especially in the burgeoning and unregulated private economy. The huge surplus of adult labor reduces the incentive to employ children. Children are most often found working on farms in poorer, isolated areas. The minimum wage varies depending on the area of the country. It generally provides a decent standard of living for a family. The Labor Law provides that the standard workweek is 40 hours, with a mandatory 24-hour rest period weekly.

## 22 AGRICULTURE

With some 50% of the economically active population engaged in farming, agriculture forms the foundation of China's economy. Limitations in topography, soil, and climate, however, have restricted cultivation to only about 14.5% of the total land area. Despite recent advances—grain crops totaling an estimated 457 million tons were produced in 1999 (22.1% of the world's total)—the enormous pressures of feeding and clothing China's vast and growing population remain among the country's most compelling concerns. From 1980 to 1990, agricultural output grew at an average annual rate of 5.9%, above the population growth rate and the first sustained expansion of agriculture since 1966; output increased at an average annual rate of 4.1% from 1990 to 2000.

The PRC government expropriated large landholdings in a land reform carried out in 1951–52, redistributing the land among poor peasants. By the end of 1954, 11.5% of all peasant households had been collectivized; by 1955, 65%; and by 1965, 99%. The Chinese collective farms had virtually no mechanical equipment, but the peasants pooled their labor in various projects, such as water management, which were beyond the capacity of individual peasants. In 1958, the collective farms were merged into larger units as people's communes. The communes were concerned not only with agricultural output but also with subsidiary farm activities, such as light industry and handicrafts, usually produced for local consumption.

Far-reaching changes in the organization of communes took place during 1961–62. Formerly, the production brigade (the major division of a commune), of which there were about 719,438 in 1982, was regarded as the commune's "basic accounting unit." In 1962, however, the production team (the subdivision of a commune) became the commune's basic organizational element. The average production team consisted

of 33 households and cultivated about eight ha (20 acres). Production teams functioned almost autonomously, making basic decisions on production and distribution of income, while the commune mainly exercised the functions of a township government. Households, the final link in the system, were permitted the use of private plots, which made up about 5% of the arable land assigned to a team. In the early 1980s, these private holdings accounted for 19% of total agricultural output and the bulk of the country's production of vegetables, fruits, hogs, and poultry. Under the "responsibility system," which was introduced in 1978 and by 1983 was operating in 90% of rural China, all production in excess of assigned levels could be sold on the open market to yield a profit for individual production teams. In 1982, in addition to the rural communes, which provided most of China's agricultural output, there were 2,078 state farms working approximately 4.5% of all farmland. These farms, under the Ministry of State Farms and Reclamation, generally served as commodity production centers and as research units for the improvement of crop and livestock yields.

In 1983–84, a major reform of the agricultural system was launched. The 50,000 communes were disbanded and replaced by 92,000 townships, and the six million production brigades were broken up. Production decisions are now made by the household, which sets production targets in contracts with the government; households can sell their surpluses in the open market for cash. Crop diversification is encouraged. By the late 1980s, 60% of agricultural output was free of state controls, and most of China's peasants practiced the household responsibility system.

Grains are the chief crop, accounting for 70% of the total value of crop output and occupying 80% of all land under cultivation. Shandong, Jiangsu, and Henan together account for about 25% of the total crop value.

The main food crops are rice, wheat, and corn, followed by kaoliang (a type of sorghum), millet, potatoes, and soybeans. China is the world's leading producer of rice, with production increasing from 106.6 million tons in 1970 to an estimated 200.5 million tons (34% of the world's total) in 1999. Over 90% of all rice is produced in southern China, with two (and in the far south, three) crops being grown each year where irrigation facilities permit. Early rice is planted in April and harvested in July; single-crop rice is planted in May and harvested in September; and late double-cropped rice is planted in June and harvested in October. The total wheat crop in 1999 amounted to 114.4 million tons, more than double the 1970 output. Wheat is cultivated throughout the country, often as a dry-season crop in the rice-growing south, with specialized production centered in the Yangtze Valley and North China Plain. Output of other coarse grains, including corn in the southwest and drought-tolerant millet and kaoliang in northern and northeastern China, exceeded 142.1 million tons in 1999. Production of roots and tubers, including sweet potatoes grown as a second crop in areas south of the Yellow River and white potatoes in cooler areas north of the Great Wall, totaled 175.6 million tons in 1999.

Industrial crops occupy only 8–9% of the cultivated areas. Among the most important are cotton (the chief raw material for the important textile industry), various oil-bearing crops, sugar, tobacco, silk, tea, and rubber. Cotton output totaled 3.8 million tons in 1999, down from 5.6 million tons in 1991, with production concentrated along the middle and lower reaches of the Yangtze River and on the plains of the Yellow and Huai rivers. Oilseed output in 1999 was derived from a diverse assortment of widely grown industrial crops, including sunflower seeds (1,550,000 tons) and rapeseed (9,700,000 tons). Other oilseed products included 200,000 tons of castor beans, 550,000 tons of sesame seeds, and 420,000 tons of linseed in 1999. Sugar production reached 8.9 million tons in 1999, up from 1.8 million tons in 1974; an estimated 84% of all sugar is derived from

sugarcane grown in the south, and the remaining 16% from sugar beets grown in the north and northeast. Production of tea, also an important traditional export, increased from 120,000 tons in 1956 to 723,000 tons in 1999 (25% of world production), with most of the tea grown in hilly regions of the south and southeast. Most tobacco is produced as a sideline by commune householders working private plots; output was 2.6 million tons in 1999. Most natural rubber is produced on specialized state farms; production totaled 440,000 tons in 1999.

The irrigated area is estimated to have increased from about 15.3 million ha (37.8 million acres) in 1950 to 52.5 million ha (130 million acres) in 1998, making China the world's leader in irrigated land. The expansion of fertilizer production is viewed as a key to major growth in the agricultural sector. Toward this end, China during 1972–74 contracted for the purchase of 13 large urea plants from Japan, the United States, and Western Europe. China's use of chemical fertilizers increased from 184 kg per ha in 1984 to about 291 kg per ha in 1998. Farm machinery in 1998 included 704,066 tractors and 114,000 combines.

## 23 ANIMAL HUSBANDRY

Except in outlying areas, nearly all of China's arable land is devoted to crops. Most agricultural units, however, also support the raising of large quantities of hogs and poultry. Natural grasslands for the grazing of sheep and cattle occupy 3.53 million sq km (1.36 million sq mi), or 37% of China's total area; the four major pasture areas are Xinjiang, Gansu, Qinghai, and Inner Mongolia. In an effort to improve these pastures, 303 million ha (749 million acres) were planted with improved forage seed strains from 1976 to 1980. Nonetheless, animal husbandry continues to be the weak link in the agricultural economy.

China leads the world in swine production, the total number of hogs reaching about 454.4 million at the beginning of 2001 (55% of the world's total), as compared with 89.8 million in 1952. The provinces with the largest hog populations are Sichuan, Hunan, Henan, and Shandong. Pig raising, often pursued as a private sideline by peasants, is the fastest-growing sector of the livestock industry, and hogs and pork products are becoming valuable export earners.

The number of sheep expanded from 36.9 million in 1952 to nearly 133.2 million in 2001. Most sheep are raised by pastoral herders, mostly the ethnic minorities, in the semiarid lands of Xinjiang, Inner Mongolia, Gansu, and Sichuan (Szechuan). Goats, also raised primarily in semiarid areas but increasingly promoted throughout China as a profitable household sideline for milk and dairy production, increased in number from 24.9 million in 1952 to 157.4 million in 2001. Sheep and goats together numbered 288 million in 2001. Provinces with the greatest numbers of sheep and goats include Shandong, Inner Mongolia, Xinjiang, and Itenan. In 2001 there were also 129 million head of cattle and buffalo, up from 66.6 million in 1965; 8.8 million horses (792,000 in 1965); and 326,000 camels (448,000). Chickens and ducks are raised throughout China on private plots and constitute, together with fish and pork, China's chief sources of dietary protein. The provinces with the largest cattle populations are Itenan, Shandong, Sichuan, and Guangxi. China produced 254,000 tons of honey in 2001, more than any other nation. China also led the world in silk production in 2001, at some 94,000 tons (75% of world production).

In 2001, China produced 65.3 million tons of meat, ranking first in the world with 27% of the total. Some 12.8 million tons consisted of poultry, second only to the United States and accounting for 12% of world production. Pork production in 2001 amounted to 42.9 million tons (first in the world), equivalent to 40% of global production.



## 24 FISHING

With a coastline of some 6,500 km (4,000 mi) adjoining a broad continental shelf, China has excellent coastal fisheries. A vast number of inland lakes and ponds, covering a total area of about 300,000 sq km (116,000 sq mi), are also used for fish culture, and a 30 km (19 mi) section of the Yangtze below Gezhouba Dam at Yichang is a designated sturgeon preserve. The principal marine fisheries are located on the coast of southern and southeastern China, in the provinces of Guangdong, Fujian, and Zhejiang. The total catch in 2000 was 16,987,325 tons, the highest in the world and 18% of global production. Of that total, 2,233,230 tons came from inland waters and 14,754,095 tons from marine fishing. China typically accounts for about 10% of the world's catch, but per capita Chinese consumption of fish amounts to only 9.3 kg (20.5 lb) per year (live weight equivalent), one of the lowest amounts in Asia. China's leading aquacultural products are carp, kelp, oysters, and scallops.

Exports of fisheries products in 2000 accounted for 6.5% of the commodity's world exports, and were valued at over \$3.6 billion (second after Norway). Regulations for the protection of aquatic resources were enacted in 1979.

## 25 FORESTRY

Forest cover has grown from 8.6% of the land base in 1949 to over 17.5% in 2000. Mature stands are decreasing, however, while the share of plantation and commercial forests continues to rise in response to government policies. Most of the forests are in remote regions, however, and lack of transportation limits exploitation. China has three major forest areas: the northeast (Heilongjiang, Jilin, and Inner Mongolia); the southwest (Sichuan and Yunnan); and the southeast (Guangdong, Guangxi, Fujian, Jiangxi, and Hainan). Fujian, Zhejiang, Anhui, and Guangdong together account for about 30% of the total value of the forestry sector. Coniferous stands, which yield the most valuable commercial timber, are found mainly in the northeast and adjoining parts of Inner Mongolia. Deciduous trees are felled in Sichuan and Yunnan. Between 1990 and 1995, however, the northeast's share of production fell to from 38% to 30%, as production shifted from state-owned forests in the north to plantation forests in the south. While China is a major producer of softwood logs and lumber, virtually all of its production is domestically consumed. Paper production, which has benefited from the substitution of rice-straw and other nonwood materials for wood pulp, nearly tripled during the 1980s. Special forestry products originating in southwestern China include tung oil, cassia oil, and aniseed oil. Wood imports can vary widely from year to year. China is the largest timber importer in the world—imports of timber and related products reached \$9.87 billion in 2001, with \$3.47 billion in timber products and \$6.38 billion in pulp and paper. Production amounts for 2000 (in 1,000 cu m) were roundwood, 287,472; sawnwood, 7,702, wood-based panels, 18,647; wood pulp, 3,700; and paper and paperboard, 35,529.

Deforestation has been a persistent and serious problem in China, leading to massive erosion and desertification. The government has, from the start of its first five-year plan in 1953, given high priority to campaigns for afforestation. By 1980, 26 million ha (64 million acres) of new forests had been planted, and during the 1980s, afforestation proceeded at the rate of 4.55 million ha (11.24 million acres) per year. However, cutting of trees for fuel continued in rural areas, and many of the trees planted as part of afforestation efforts were lost because of neglect after planting. In its ninth five-year plan commencing in January 1996, the Ministry of Forestry had the following goals: operating 10 major forest conservation projects by 2000; increasing the variety of wood species in state-owned forest plantations; developing the paper making industry; exploring and

developing growing trees in marginal land (such as hilly, mountainous, or sandy terrain); and classifying forests as either industrial (for environmental protection) or economic (for commercial production). During 1990–2000, the forested area grew by an annual average of 1.2%.

## 26 MINING

China produced more than 70% of the world's tungsten, was the largest producer and exporter of rare earths, the largest producer of cement, tin and, steel, and a world leader in the production of antimony. Intensive geologic exploration has yielded greatly expanded mineral reserves. This increase in known subsurface resources was reflected in production rises for China's most important mineral products—coal, petroleum, iron ore, copper, lead, zinc, tungsten, mercury, antimony, tin, molybdenum, barite, fluorspar, magnesite, and rare earths. In 2000, China produced a total of 7.51 million tons of 10 nonferrous metals, 14.6% more than in 1999; production in all 10 metals increased. The production of iron and steel was China's leading industry in 2002, coal production ranked second, and petroleum, cement, and chemical fertilizers were among the top eight. Mineral fuels ranked fifth among export commodities. GDP grew by 8% in 2000 and 7.1% in 1999, due mainly to a strong turnaround of exports.

Iron ore production in 2000 (gross weight) was 224 million tons, down from 268 million in 1997. Virtually all iron mining was carried out north of the Yangtze River, and the country's total resources totaled 55,000 million tons, the largest reserves being in Liaoning, Hebei, and Sichuan. The largest producers—Anshan Mining Co. (in Liaoning, Anshan) and Shoudu (Capital) Mining Co. (Beijing)—had annual capacities of 30 million tons and 20 million tons, respectively. As domestic iron deposits were of a low ore grade (less than 35% on the average) and required concentration, China has imported more than 50 million tons of ore in the past several years, and steel enterprises continued to look for joint-venture possibilities for iron mines in other countries. Officials from Heilongjiang Province and the Jewish Autonomous Republic of Russia discussed developing the Kimkan iron ore deposit (Khabarovsk, Russia), whose reserves totaled 189 million tons.

Tungsten output in 2000, mainly from Jiangxi, was 37,000 tons (metal content), up from 31,100 in 1999 and 25,000 in 1997; 9,276 tons of tungstates were exported, worth \$43.8 million. China National Nonferrous Metals Industry Corp. had a capacity of 60,000 tons per year in Guangdong, Guangxi, Hunan, Jiangxi, and Zhejiang. China's output had a major influence on world prices and, in an effort to control production and exports, the government forced major producers to reduce output, closed 145 illegal mines in 1999 and 2000, and decreased the export quota in 2000 to 17,000 tons. The government approved the export of tungsten by 13 companies, six producers, and seven trading companies in 2001.

Copper output (metal content) was 590,000 tons, up from 520,000 in 1999, 487,000 in 1998, and 439,000 in 1996. Because domestic concentrates supplied one-half of the country's rising demand and 40% of smelters' needs, China imported 1.8 million tons of concentrates in 2000, 45% more than in 1999. Three major copper mining development projects would add 100,000 tons of output capacity by 2003. The Ministry of Land Resources announced the discovery of a large porphyry copper deposit in eastern Tianshan (southwest of Hami City, in Xinjiang Uygur Autonomous Region) that contained 10 million tons of copper ore (0.5%–1.5% copper), 3,000 tons of silver, 100 tons of gold, and a significant amount of molybdenum. Also in Xinjiang Uygur, near Habahe, the government approved the construction of the Ashel Copper Mine; the mine, which also contained iron and zinc, planned to produce 2,000–3,000 tons per day of ore and concentrates that contained 25% copper and 53% zinc for

the duration of its projected 38-year life. The Xitianshan Mining Bureau, renamed Western Mining Co. Ltd., had a lead and zinc mining capacity of 1 million tons per year (Qinghai Province), and was approved to develop the Saishitang Copper Mine, northwest of Xining, and China's largest undeveloped copper deposit, Yulong (6.5 million tons reserves), in Xizang Autonomous Region. Jiangxi Copper Co. Ltd. planned to expand one mine, acquired another, and bought the exploitation rights to a third.

Other metallic ore outputs were: tin (chiefly in Yunnan), 97,000 tons, up from 80,100 in 1999 and 67,500 in 1997; antimony (from Guangxi, Guizhou, and Hunan), 98,700 tons, down from 131,000 in 1997; bauxite (gross weight), 9 million tons, up from 6.2 million tons in 1996; lead (metal content), 570,000 tons, down from 712,000 in 1997; molybdenum, 28,900 tons; mercury, 200 tons, down from 830 in 1997; and zinc, 1.7 million tons, up from 1.27 in 1998. China also mined alumina, bismuth, cobalt, gallium, germanium, gold, indium, manganese, nickel, platinum-group metals, silver, uranium, and vanadium. Pingguo Aluminum Co. received approval for its expansion plans, which would increase output capacities to 700,000 tons per year of alumina in 2005 (from 400,000); 2.4 million tons per year of bauxite; 100,000 tons per year of nonmetallurgical grade alumina; 300,000 tons per year of aluminum; and 50,000 tons per year of graphite block. Henan geologists discovered a bauxite deposit in western Hunan Province that could contain reserves of 50 million tons and a significant amount of gallium. Another bauxite discovery, in Jingxi County, Guangxi Province, could contain reserves of 82 million tons (37 million tons of which could be economically developed), 100,000 tons of gallium, and a significant amount of niobium, scandium, and titanium.

The government planned to reform the gold sector by easing restrictions on foreign investment and establishing a gold exchange market by 2002. Domestic producers were required to sell all their gold to the Central Bank at a fixed price; the bank would gradually withdraw from its gold monopoly position. The establishment of gold mining companies that were wholly owned by foreign investors was not permitted. A joint exploration and development agreement was signed to explore for gold and silver in the Hulunbeier League; the Canadian partner in the agreement, Naneco Minerals Ltd., had to provide the capital for further exploration and development of the Errentouligai gold and silver deposit, near the Jiawula polymetallic deposit. Alaskan Exploration Corp., a subsidiary of Vega-Atlantic Corp., of Germany, and Yunnan Northeast Silver Industry Co. Ltd., formed a joint venture to develop the Luomachang silver mine, in Yunnan Province; the mine, which had operated for three years, at a capacity of 17 tons per year, had reserves of 9 million tons at a grade of 221.9 grams per ton of silver.

The output of rare-earth oxide content—60% from Nei Mongol, 18% from Sichuan, and 17%, Jiangxi—was 73,000 tons in 2000, up from 60,000 in 1998; more than two-thirds was exported, the major destinations being France, Japan, and the United States. In Nei Mongol, rare-earth concentrate, known as Baotou rare-earth concentrate, was the byproduct of producing iron concentrates, and contained oxides of the light rare-earth group—lanthanum, cerium, praseodymium, neodymium, samarium, europium, and gadolinium. In Mianning and Dechang (Sichuan), rare earths were mainly bastnasite, and, in Ganzhou (Jiangxi), the rare earths were of the ionic absorption type. A joint venture in Jiangsu province was to produce vanillin. The largest producers—Gansu Rare Earths Co. (in Jiangxi, Nanchang) and Baotou Iron and Steel and Rare Earths Corp. (in Nei Mongol, Baotou)—had capacities of 32,000 and 25,000 tons, respectively. China's rare-earth processing capacity expanded from 50,000 tons per year in 1995 to 130,000 tons per year in 2000. Rare earths remained a highly controlled sector,

and a rare-earth quota was introduced in 1999 to control exports. China also produced 65,000 tons of rare-earth products (46,700 exported), including 32,000 tons of high-purity individual rare-earth oxide.

Hydraulic cement production was 583.2 million tons, up from 511.7 million tons in 1997 and 491.2 million tons in 1996, although many of the manufacturing plants were old and inefficient; export of 6.06 million tons earned \$190 million. Other industrial mineral production included fluorspar, 2.45 million tons (1.2 million tons exported, for \$117.9 million); barite (from Guizhou, Xiangshou), 3.5 million tons (2.52 million tons of barium sulfate was exported, worth \$79.4 million); magnesite, 2.5 million tons (2.04 million tons exported, worth \$266.4 million); gypsum, 6.8 million tons, down from 9.1 million tons in 1997; graphite, 400,000 tons, up from 300,000 in 1999 and 185,000 in 1996 (333,460 tons exported, for \$51 million); talc and related materials, 3.5 million tons, down from 3.9 million tons in 1999 (710,000 tons exported, for \$58.5 million); mine boron (boron oxide equivalent), 100,000 tons, down from 137,000 in 1998 and 157,000 in 1996; asbestos, 245,000 tons; and bromine, 42,000 tons. China also produced diamond, diatomite, dolomite, kyanite and related materials, lithium minerals, nitrogen, phosphate rock and apatite, potash, salt, sodium compounds, and sulfur.

The government in 2000 approved the opening of a diamond exchange market in Shanghai. China in 2000 became the world's eighth-largest consumer of precious stones (actual figures were difficult to ascertain because of smuggling and overseas purchases), and "Great China," which included Hong Kong and Taiwan, was believed to be the world's third-largest diamond market, after the United States and Japan.

In 2000, the government issued several laws and regulations to improve the country's investment environment and foreign investors' confidence. The laws and regulations dealt with, among other things, mineral resource exploitation planning, land exploitation, mine ownership transfer, customs law, gold mining, Sino-foreign contractual joint ventures, foreign capital enterprises, and mineral-resource deposit size classification standards. The government continued its efforts to restructure the mining and metal sectors, abolishing nine bureaus, transferring responsibilities to industrial associations, dissolving three state-owned nonferrous enterprises, and, to help the industry become more efficient, ceding management to provincial and city governments. The government also offered incentives to companies—exemption from income tax, tariffs, and import value-added tax (VAT)—to invest in the poorer western provinces. It also began to phase out the preferential taxes for foreign enterprises, prepared to draft a "zero tariff rate" policy for exports, issued guidelines to allow foreign enterprises to conduct mineral exploration in China, and agreed to eliminate import quotas and dismantle export subsidies. China planned to increase production of cement, copper, fertilizer, iron, lead, nickel, salt, soda ash, and zinc, and expected to retain its dominance in the world market for antimony, barite, fluorspar, magnesite, rare earths, and tungsten.

The iron and steel trade was valued at \$14.1 billion, out of 2000's trade total of \$474.3 billion; nonferrous metals at \$10.1 billion; and nonmetallic minerals at \$7.1 billion. Exports of cement, copper products, coal, coke, steel products, and zinc and its products rose by more than 10%. Export duties for unwrought antimony declined from 20% to 5%; and unwrought zinc, 25% to 0%. The government decided in 2000 to provide a full VAT rebate for 80,000 tons of copper concentrates and 200,000 tons of copper anode for three years.

## 27 ENERGY AND POWER

China's petroleum resources are a key to its industrial development. Crude oil production increased from 102,000

barrels per day in 1960 to 3.3 million per day as of 2002. In 1998 China had proven reserves of 24 billion barrels. The major producing centers are the Daqing field in Heilongjiang, which came into production in 1965 and accounts for nearly one-third of national production, and the Liaohe field, located in northeastern China. In addition to numerous other mainland finds, China has potential offshore reserves in the Bo Hai area (thought to have reserves of over 1.5 billion barrels) and the South China Sea, especially in the vicinity of Hainan Island.

By the mid-1970s, China no longer had to rely on oil imports; petroleum exports had, in fact, emerged as a major source of foreign exchange earnings. More than 9,740 km (6,050 mi) of long-distance pipelines transport the oil from fields to refineries and other points of consumption and export. China, however, became a net importer of oil in 1996, because rapid increases in oil demand from high economic growth rates outpaced the slower increases in oil production.

After rising dramatically in the early 1980s, owing largely to the discovery and exploitation of vast deposits in Sichuan Province during the late 1950s and early 1960s, natural gas output stagnated somewhat in the late 1980s. As of 2002 natural gas supplied only 3% of the country's energy. However, with proven reserves totaling over 1.4 trillion cu m (48 trillion cu ft), it was expected that consumption would triple by 2010. In 2000, total national production reached 27.2 billion cu m (960 billion cu ft). A pipeline to transport natural gas from the Xinjiang province in the west to Shanghai in the east was planned, with Shell chosen to lead a consortium of development companies.

Although China's rivers provide a vast hydroelectric potential (an estimated 378 million kW), only a small part has been developed. In the late 1990s, after economic growth slowed due to the Asian economic crisis, the government declared a two- to three-year moratorium on construction of new power plants due to an oversupply problem. The main hydroelectric projects include Ertan in Sichuan Province, Yantan in Guangxi Zhuang Autonomous Region, Manwan in Yunan Province, Geheyan in Hubei Province, Wuqiangxi in Hunan Province, Yamzho Yumco in Xizang Autonomous Region, and Lijia Xia in Qinghai Province. In April 1992, the government approved the construction of the largest hydropower project in China—the Three Gorges Project on the middle reaches of the Chang Jiang. Construction, begun in 1996, was still underway in 2002, with completion of the 26 hydropower generating units slated for 2009. The Three Gorges Project has a designed capacity of 17,680 MW and will require the relocation of millions of people just in Sichuan Province alone. A second major hydroelectric project, consisting of a series of dams on the Yellow River, was also underway in 2002.

In 2001, China's net installed electrical generating capacity was 318.3 million kW, up from 115.5 million kW in 1988. Total output of electricity increased during the 1988–98 period from 545 billion to 1,098 billion kWh. Net generation in 2000 was 1,288 billion kWh, of which 81.8% was from fossil fuels, 16.8% from hydropower, and 1.2% from nuclear power. Electricity consumption in 2000 was 1,206 trillion kWh.

Traditionally, coal has been the major primary-energy source, with auxiliary biomass fuels provided by brushwood, rice husks, dung, and other noncommercial materials. The abundance of coal continues to provide cheap thermal power for electric plants. In 2000 China was both the world's largest coal producer, at 1,270 million tons, and its leading consumer of coal, at 1,310 million tons. Coal comes from over two dozen sites in the north, northeast, and southwest; Shanxi Province is the leading producer. Recoverable reserves as of 2000 were estimated at over 126.2 billion tons. As of 1996, China accounted for 11.1% of the world's proven reserves of coal. Large thermal power plants are situated in the northeast and along the east coast of China, where industry is concentrated, as well as in new inland industrial

centers, such as Chongqing, Taiyuan, Xi'an, and Lanzhou. In 2000, coal accounted for 63% of primary energy consumption. By that year, some of the country's large coal-producing companies had returned to profitability following a period of oversupply in the late 1990s that led to the closure of many small mines.

The 279 MW Qinshan nuclear power plant near Shanghai began commercial operation in 1994. That same year, two 944-MW reactors at the Guangdong facility at Daya Bay also started commercial service. In 1995, Chinese authorities approved the construction of four more reactors. Net capacity for China's three nuclear reactors was estimated at 2,167,000 kW in 1996. As of 2002 construction of several nuclear power projects was underway. The first unit of the Lingao nuclear power plant came online in May 2002; a second unit was scheduled to begin operating in May 2003. Nuclear generation was planned to play a secondary but important role, especially in areas that lack both hydropower potential and major coal resources.

China ranks as the world's second-largest consumer of energy (after the United States). The goals of China's ninth five-year plan (1996–2000) included building power plants (primarily coal), strengthening oil and gas exploration and development, improving energy inefficiency, and developing rural energy (including small hydropower, solar, geothermal, and biogas).

## 28 INDUSTRY

China has achieved a rapid increase in the gross value of industrial output (used before China switched to GNP accounting in 1986), which, according to official Chinese statistics, rose by 13.3% annually between 1950 and 1979. The greatest sustained surge in growth occurred during the first decade, with the rate averaging 22% annually during 1949–60. During 1961–74, the yearly growth rate fell to about 6%, partly as a result of the disruptions brought on by the collapse of the Great Leap Forward (which accompanied the withdrawal of Soviet technicians in mid-1960) and of work stoppages and transportation disruptions during the Cultural Revolution. Growth averaged 10% from 1970 to 1980 and 10.1% from 1979 to 1985. Major policy reforms of 1984 further accelerated the pace of industrial growth, which reached 20.8% by 1988. After a brief retrenchment period in 1989–90 as government policies prioritized inflation control over other concerns, expansion of the country's industrial sector resumed apace, exceeding 20% in 1992 and 18% in 1994. Industrial output was officially up 13.4% in 1995, with state enterprises contributing the majority.

While approximately 50% of total industrial output still derives from the state-owned factories, a notable feature of China's recent industrial history has been the dynamic growth of the collectively owned rural township and village enterprise as well as private and foreign joint-venture sectors. Also apparent has been the spatial unevenness of recent industrial development, with growth concentrated mainly in Shanghai, the traditional hub of China's industrial activity, and, increasingly, a number of new economic centers along the southern coast. The coastal provinces of Jiangsu, Guangdong, Shandong, Shanghai and Zhejiang provinces together account for close to 33% of the country's total industrial output and most of its merchandise exports. One key factor in this industrial geography has been the government's establishment of several Special Economic Zones in Guangdong, Fujian and Hainan provinces, and its designation of over 14 "open coastal cities" where foreign investment in export-oriented industries was actively encouraged during the 1980s.

Before the first five-year plan (1953–57), China had only one major steel center—Anshan, in the northeast—and several minor ones. All these produced 1.93 million tons of pig iron and 1.35 million tons of steel in 1952. By 1995, China was producing 92,970 million tons of crude steel and 101,700 million tons of pig iron. China had one trillion tons of confirmed coal reserves and

an estimated five trillion tons of coal reserves and 48.7 billion tons of iron ore in 2000. Anshan continues to be the hub of the industry, but other huge steel complexes have been constructed at Baotou, Benxi (about 50 km/30 mi east of Anshan), Taiyuan, Wuhan, and Ma'anshan (near Nanjing).

China's cotton textile industry is the largest in the world, producing yarn, cloth, woolen piece goods, knitting wool, silk, jute bags, and synthetic fibers. Labor-intensive light industries played a prominent role in the industrial boom of the late 1980s and early 1990s, accounting for 49% of total industrial output, but heavy industry and high technology took over in the late 1990s. In addition to garments and textiles, output from light industry includes footwear, toys, food processing, and consumer electronics. Heavy industries include iron and steel, coal, machine building, armaments, petroleum, cement, chemical fertilizers, and autos. High technology industries produce high-speed computers, 600 types of semiconductors, specialized electronic measuring instruments, and telecommunications equipment.

Since 1961, industry has been providing agriculture with farm machines, chemical fertilizers, insecticides, means of transportation, power, building materials, and other essential commodities. Handicraft cooperatives also have been busy making hand-operated or animal-drawn implements. Production of a variety of industrial goods has expanded, increasingly in order to supply the country's own expanding industrial base. In addition to fertilizers, the chemicals industry produces calcium carbide, ethylene, and plastics. Since 1963, great emphasis has been placed on the manufacture of transportation equipment, and China now produces varied lines of passenger cars, trucks, buses, and bicycles. In 1995, output included 1,452,697 motor vehicles (more than double the 1991 figure). Output for 1997 was over 1.6 million units. The industry underwent a major overhaul in the late 1990s in order to stimulate efficiency and production.

## 29 SCIENCE AND TECHNOLOGY

Modern China is the heir to a remarkably inventive civilization that pioneered in the development of the abacus (the first mechanical calculating device), paper (and paper money), printing by movable type, gunpowder, the magnetic compass, and the rocket. Contact with the West during the 19th century revealed how technologically backward China had become, and it is only in recent decades that the nation has begun to catch up.

China detonated its first fission device in 1964 and its first hydrogen bomb in 1967; the nation now possesses a variety of nuclear weapons mounted on missiles, bombers, submarines, and other delivery systems. Its first satellite was launched in 1970. By 1992, the PRC had launched an INTELSAT satellite on a Chinese launch vehicle. Other priorities have been the development of high-energy physics, laser research, powerful computer memory chips, color television broadcasting technology, and laser infrared devices, although the PRC still relies heavily on outside investment and technology transfer. Major advances have also been claimed in rice hybridization, insecticides, fertilizers, biogas digesters for rural electrification, and pollution control technology.

Two scientific exchange agreements between the US and China were signed in January 1984 during Premier Zhao Ziyang's visit to Washington, D.C. China has proposed to several Western nations that it provide long-term storage facilities in remote provinces for radioactive waste—a proposal that Western observers believed would provide China not only with hard currency but also with nuclear materials for possible reprocessing.

China's principal technological handicap is lack of skilled personnel. Only 1% of the PRC's 127 million 22-year-olds receive a university degree. However, 37% of all Chinese degrees are in engineering, the highest ratio in Asia. Part of China's

response to this shortage has been to send tens of thousands of students overseas for advanced study, especially in the US. In 1987–97, science and engineering students accounted for 43% of college and university enrollments. China had 454 scientists and engineers and 200 technicians per million people engaged in research and development during the same period. Scientific research is coordinated by the prestigious Chinese Academy of Sciences, founded in 1949 and headquartered in Beijing. China in 1996 had 90 specialized learned societies in the fields of agriculture, medicine, science, and technology. Most are affiliated members of the China Association for Science and Technology, founded in 1958. International science and technology cooperation is also increasing. In 1998, high-technology exports were valued at \$23.3 billion and accounted for 15% of manufactured exports. However, concerns over human rights issues have had the effect of cooling US-PRC science and technology exchanges. In 1996, China had 105 universities and colleges offering courses in basic and applied science.

## 30 DOMESTIC TRADE

Three types of retail trade outlets—the periodic market, the peddler, and the urban shop—constituted the basis of the traditional commercial structure. In the early 1950s, however, a number of state trading companies were established for dealing in commodities such as food grains, cotton, textiles, coal, building materials, metals, machinery, and medicines. These companies, under the control of the Ministry of Commerce, have established branch offices and retail stores throughout the country.

In the 1960s, the establishment of state-owned department stores and cooperative retail outlets virtually replaced private trade. There was a resurgence of periodic open markets and private traders when domestic trading regulations were relaxed in 1978. In addition, the government has progressively loosened or eliminated many of its former price controls; an estimated 90% of all retail sales are no longer controlled.

In 2001, 50% of the work force was employed in agriculture, keeping the country basically self-sufficient in grain production, even though only about 13% of the land is arable. Farmlands and the agricultural industry, however, remain under state control.

The China Export Commodities Fair, usually held each spring and fall in Guangzhou, was for more than 20 years an important point of contact for Westerners doing business with China. Though still important as an initial introduction to the full range of China's potential suppliers, the decentralization of trading activities in recent years has greatly reduced the fair's role in mediating sustained contact between producers and buyers. Local foreign trade commissions in various industrial centers of the country have taken on a much more active role in organizing many of the services associated with the commodities fair, while any domestic enterprise with foreign trading rights may now participate directly in all events related to trade promotion. Guangzhou still hosts two annual trade fairs, though on a reduced scale. In the major cities, Friendship Stores and other restaurants, hotels, service bureaux and taxis cater exclusively to foreign visitors; payment is made in foreign exchange certificates.

By the mid-1980s, international credit cards could be used to obtain cash advances in selected outlets and for direct purchases in Friendship Stores. Some Internet commerce took place in China after 1998.

## 31 FOREIGN TRADE

Though China has only recently become a major trading nation, its enormous trading potential is attracting great attention by both advanced and newly industrializing nations, shown by the world's interest in China's membership with the WTO. Trade has performed important functions within the economy, providing needed capital goods and modern technology to abet development, as well as primary commodities (such as grains) to

supplement local supply in slack years. Foreign trade is under the direction of a single Ministry of Foreign Economic Relations and Trade, created in 1982 through the merger of the former ministries of Foreign Trade and Foreign Economic Relations with the Export-Import and Foreign Investment commissions. A major issue since the early 1980s, however, has been the decentralization of trade management and greater reliance on currency devaluation (major devaluations were implemented in 1989 and 1991) and market incentives rather than direct export and import controls to promote desired trade patterns. After the Asian financial crisis of 1998, officials were tempted to devalue the currency once more; instead the Ministry of Foreign Trade and Economics (MOFTEC) spent massive sums of money on state industry, while dismantling trade barriers in anticipation of WTO membership.

Prior to 1949, some three-fourths of China's exports were agricultural products. This proportion ebbed to a low of 13% during the agricultural crisis of 1961. Foodstuffs and other primary products including crude nonfood raw materials, minerals and fuels averaged about 43% to 50% of exports through 1985, after which the proportion declined steadily to reach only 6% in 1998, as manufactured exports expanded rapidly. Textiles (excluding garments) accounted for 10% of all exports in 1994 and clothing for about 19.7% (up from 7.5% in 1985). However, China's efforts to emulate the success of Japan, British Hong Kong, Taiwan, and the ROK in basing economic expansion on textile and clothing exports have encountered protectionist resistance from major potential markets in the United States and European Union.

The textile and clothing industry created the large majority of China's commodity exports in 1998. China's special administrative region of Hong Kong also produces clothes for a large percentage of its export market (12%), averaging 12.1% of the world's total clothes exports. The majority of Hong Kong's exports go to China. Other exports include electrical parts (16%), watches and clocks (2.6%), telecommunications equipment (6.7%), and footwear (3.0%). Hong Kong produces 28% of the world's exports in watches and clocks. China's top 10 exports (excluding Hong Kong) are as follows:

	% OF COUNTRY TOTAL
Telecom equipment	5.0
Footwear	3.8
Outerwear knit, non-elastic	3.5
Women's outerwear, not knit	3.3
Men's outerwear, not knit	2.7
Road vehicles	2.6
Toys and sporting goods	2.0
Iron and steel	2.0
Petroleum and petroleum products	1.9
Undergarments, knitted	1.7

Food imports, which made up only about 2% of the import volume in the 1950s, averaged 20% of the total in 1973 and 1974 but, as total imports rose, fell to less than 4% by 1985 and remained at 2.4% in 1994 and 5% in 1998. In 2000 China's imports were distributed among the following categories:

Consumer goods	3.6%
Food	3.4%
Fuels	9.0%
Industrial supplies	42.1%
Machinery	37.3%
Transportation	3.8%
Other	0.8%

The direction of China's trade has followed three major patterns since the 1930s. Prior to World War II, Japan, Hong Kong, the United States, and the United Kingdom together made up about three-fourths of the total trade volume. With the founding of the PRC in 1949, trade shifted in favor of the former

USSR and Eastern Europe. During 1952–55, more than 50% of China's trade was with the former USSR; during 1956–60, the proportion averaged about 40%. As Sino-Soviet relations deteriorated during the 1960s, trade exchanges steadily declined, reaching a bare 1% of China's total volume in 1970 (3.6% in 1986). By the early 1980s, most of China's leading trade partners were industrialized non-Communist countries, and China's trade pattern overall reflected a high degree of multilateralism.

In recent years, as China has rapidly enlarged its role on the international market, the importance of Hong Kong as an entrepot and major source of revenue has increased. In 1992, Hong Kong accounted for close to 35% of China's total trade (up from about 21% in 1986). Hong Kong reverted to Chinese rule in 1998, but because of its enormous trade activity, Hong Kong's trade is often measured separate from China. During the 1990s, Japan ranked as the second largest trading partner, importing oil and other raw material and claiming 15% of China's total trade. The most dramatic change in the mid-1980s was the emergence of the United States as China's third-largest trading partner; by 2000 the United States was China's second-largest trading partner, and the largest importer of Chinese goods.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	52,156	22,375	29,781
Hong Kong	44,518	9,429	35,089
Japan	41,654	41,510	144
Germany	9,278	10,409	-1,131
Korea	11,292	23,207	-11,915
Netherlands	6,687	1,236	5,451
United Kingdom	6,310	3,593	2,717
Singapore	5,761	5,060	701
France	3,715	3,951	-236
Russia	2,233	5,770	-3,537

### 3.2 BALANCE OF PAYMENTS

Both foreign trade and international financing in China are state monopolies, with policies and transactions administered by the People's Bank of China (PBC). Among its various functions, the PBC sets exchange rates for foreign currencies. The PBC releases foreign exchange to the Bank of China, which plays a major payments role through its branches in Hong Kong, Singapore, and other overseas financial centers. The government has, overall, maintained a record of financial stability, linked to a policy of stringent controls over its international transactions. Adhering generally to a principle of self-reliance, it has resorted to the use of commercial credit at certain junctures but until the 1970s avoided falling into long-term indebtedness as a means of financing major development goals. In the period 1958–60, the Great Leap Forward and the succeeding years of economic crisis caused a sharp deterioration in China's international payments position. In 1960, large negative clearing account balances with Communist countries (-\$625 million) were even more than the foreign exchange reserves of \$415 million. By the end of 1964, however, the negative balance with Socialist nations had been reduced to \$55 million, and China's net international financial resources stood at a surplus of \$345 million, owing to monetary gold holdings of \$215 million and foreign exchange balances from trade with non-Communist countries amounting to \$185 million. By 1965, the Chinese had completely cleared their long-term debt to the former USSR, and by 1968, China had redeemed all national bonds and was free of all long-term external and internal debts. Publication of official balance-of-payments statistics was discontinued during the Cultural Revolution and not resumed until September 1985. According to Western analyses, the period 1978–81 saw a continuing surplus in current accounts, as rising levels of imports were generally matched or

exceeded by increases in exports over the same period. In addition, transfers of an estimated \$1.1 billion in 1978 and \$1 billion in 1980, derived from increased earnings in tourism, shipping, and remittances from Hong Kong and other sources, resulted in overall current accounts surpluses of \$900 million and \$1.2 billion in 1978 and 1980, respectively. China's drive to industrialize under the Four Modernizations policy resulted in an unprecedented deficit on capital accounts of \$1.1 billion in 1978. The subsequent unilateral decisions to cancel \$2.6 billion in contracts with Japan (1979) and \$2 billion with Japan and Western nations (1981) were interpreted by some observers as an indication of acute cash-flow problems and a reordering of investment priorities at the highest levels. The trade account was helped by the slow but steady devaluation that occurred after China went to a managed float exchange rate system in January 1991. Tourism receipts and visitor figures also continued to grow, passing pre-Tiananmen levels. Foreign investment boomed in the 1990s, with a total of nearly \$45 billion committed in 1998 alone. Approximately half of China's loans came from the Asian Development Bank, the World Bank, and Japan; external debt reached \$159 billion in 1998. A usually positive current account balance stockpiled China's reserves. In 1998, China had some \$147 billion in official reserves, but state industries had accumulated a huge amount of what was called triangular debt with the state banks and other lending agencies. Government infrastructure and industrial projects received funding for goods that could not be sold domestically in 1999 due to lower demand, losing money for each party involved. In effect, external trade plays a secondary role in China's economy because of normally high, unsatisfied domestic demand. Agreements with the WTO threaten to increase China's dependence on foreign trade. China's external debt stood at \$149.4 billion in 2002.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of China's exports was \$312.8 billion while imports totaled \$268.6 billion resulting in a trade surplus of \$44.2 billion.

The International Monetary Fund (IMF) reports that in 2001 China had exports of goods totaling \$266 billion and imports totaling \$232 billion. The services credit totaled \$33.3 billion and debit \$39.3 billion. The following table summarizes China's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>17,401</b>
Balance on goods	34,017
Balance on services	-5,933
Balance on income	-19,175
Current transfers	8,492
<b>Capital Account</b>	<b>-54</b>
<b>Financial Account</b>	<b>34,832</b>
Direct investment abroad	-6,884
Direct investment in China	44,241
Portfolio investment assets	-20,654
Portfolio investment liabilities	1,249
Other investment assets	20,813
Other investment liabilities	-3,933
<b>Net Errors and Omissions</b>	<b>-4,732</b>
<b>Reserves and Related Items</b>	<b>-47,447</b>

### 33 BANKING AND SECURITIES

Economic reforms under the Four Modernizations program adopted in 1978 brought major changes in China's highly centralized and tightly controlled banking system. In 1982, the People's Bank of China (PBOC) became the central bank and turned over its commercial operations to the new Industrial and Commercial Bank. The State Administration of Foreign Exchange (SAFE) helps set foreign exchange policy. Other specialized agencies include the People's Construction Bank, the Agricultural

Bank of China, the Bank of China, the Bank of Communications, the China Development Bank, and the Export-Import Bank of China. The China Construction Bank (CCB) makes payments for capital construction according to state plans and budgets. The Agricultural Bank of China finances agricultural expansion, grants rural loans, supervises agricultural credit cooperatives, and assists in the modernization of agriculture. The Bank of China (BOC) handles foreign exchange and international settlements for the PBC. It has branches throughout China as well as in Singapore, Hong Kong, Paris, London, Luxembourg, New York, and Tokyo. The BOC is charged with financing China's foreign trade and also acquiring and channeling into appropriate areas the foreign capital needed for imports of industrial equipment and other items for modernization.

The foreign-owned Standard Chartered Bank maintains long-established offices in China. Over 90 foreign banks, representing Japan, the United States, France, Italy, Pakistan, and the United Kingdom, received permission to establish offices in Beijing in the early 1980s. In 1985, for the first time, foreign banks were allowed to do business in the four special economic zones (established to attract foreign investment) in foreign currency. In mid-1997, 10 foreign banks were given permission to operate outside of the special zones; and in 1996, foreign banks were given limited authority to do business in renminbi (the local currency at the time). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$745.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1,889.7 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3.24%.

In 1987, stock exchanges opened in Shanghai and several other cities, and several stock and bond issues were floated domestically. Securities exchanges are controlled by the PBC, and trading in securities is very limited. In 1997, China accelerated stock-market listings of about 50 large and medium-sized state-owned enterprises (SOEs) and considered raising the number of enterprises piloting group holding structures from 57 to 100. In November 1996, the Shanghai Stock Exchange President, Yang Xianghai, predicted that China's two exchanges (Shanghai and Shenzhen) would number in excess of 1,000 companies by 2000. At the time he was speaking, there were 472 companies listed on the stock exchanges. By 2003, there were 746 listed companies and 871 listed securities being traded on the exchange. In 2001, China's stock market had a value of RMB27.6 trillion, Asia's second largest behind Tokyo. The stock exchange is split into two sections, the "A" share market and the "B" share market. Foreigners may only participate in the B-share market, denominated in foreign currencies and consisting predominantly of foreign private companies. The A-share market is reserved for domestic investors (who are not allowed to participate in the B-share market) and dominated by state enterprises.

### 34 INSURANCE

The People's Insurance Co. of China (PICC), formed in 1949, is authorized to handle all kinds of insurance, including the insurance of China's foreign trade and foreign insurance operations in China. In 2001, the People's Insurance Co. of China controlled 78% of China's property/casualty insurance industry, with 4,200 branches and a workforce of 110,000. Two newer domestic Insurance Companies, China Pacific and Ping An, have 11% and 8%, respectively, of the market. Two additional state enterprises, the China Insurance Co. and the Tai Ping Insurance Co., are in operation, and several foreign insurance companies have established representative offices in Beijing. By October 1995, 77 insurance companies from over ten nations had established 199 agencies in China. Demand for insurance projects is predicted to grow as economic reforms limit the social security

benefits provided by state enterprises. By 2001, life insurance premiums were growing at an average rate of nearly 70% per year, with nonlife premiums growing at around 15% per year.

### 35 PUBLIC FINANCE

The annual state budget is prepared by the Ministry of Finance and approved by the National People's Congress. A major reform in public finance, introduced in 1980, was a new system of allocating revenues and expenditures between local and national levels of government. Previous revenue-sharing procedures allowed the central government to fix maximum spending levels for each province, autonomous region, and centrally administered municipality. The new system fixed for a five-year period the proportion of local income to be paid to the central government and (except for emergency appropriations for floods and other such disasters) the level of subsidies to be provided by the central government, as well as the proportion of local income to be retained by local governments. Autonomous regions receive proportionately greater state subsidies than the provinces and centrally administered municipalities, and they are entitled to keep all revenues from local industrial and commercial taxes.

During the 1990s, the Chinese consolidated budget deficit grew at a rapidly increasing rate. According to the IMF, the 1998 budget deficit amounted to 4% of GDP, due to rising expenditures and tax evasion. Deficits are largely financed by domestic debt issuance rather than by money creation. In 1999, the central government performed an audit of embezzlement, finding that some \$2.4 billion in state funds had been diverted into private bank accounts, and that a total equaling one-fifth of the central government's tax revenues were misused. In all, the government's liabilities were equal to 100% of GDP in 2000, according to some sources. Annual tax revenues equal 13% of GDP, one-fifth of which goes annually to paying interest on government debts.

The US Central Intelligence Agency (CIA) estimates that in 2000 China's central government took in revenues of approximately \$161.8 billion and had expenditures of \$191.8 billion. Overall, the government registered a deficit of approximately \$30 billion. External debt totaled \$149.4 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	100.0%	161,800
Tax revenue	85.4%	138,122
Non-tax revenue	5.4%	8,759
Capital revenue	<0.1%	27
Grants	9.2%	14,891
EXPENDITURES	100.0%	191,800
General public services	8.4%	16,151
Defense	12.0%	23,006
Public order and safety	2.5%	4,724
Education	1.7%	3,244
Health	0.3%	484
Social security	3.8%	7,270
Housing and community amenities	0.2%	288
Recreation, cultural, and religious affairs	0.4%	685
Economic affairs and services	17.8%	34,193
Other expenditures	53.1%	101,754

### 36 TAXATION

An overhaul of China's tax system began in 1979 as part of the Four Modernizations program. The principal domestic levies, as in the past, were commercial and industrial taxes imposed on all enterprises, but, after 1979, taxes were due only on assigned production quotas. In 1993, the Consolidated Industrial and

Commercial Tax was levied (usually at 5–10%) on agricultural and industrial production, commercial retailing, and service, transportation, and communication earnings.

On 1 January 1994, the PRC Individual Income Tax law came into effect in China. The PRC introduced a new turnover tax system consisting of a VAT, business tax, and consumption/excise tax, to replace the CICT. Under the new system the sale or importation of goods and services are subject to VAT at a standard rate of 17%. Other services and the transfer of real property and intangible assets are subject to a business tax with a rate ranging from 3% to 20%. Consumption/excise taxes were also introduced to tax 11 categories of goods, including cigarettes and alcoholic beverages.

Under a tax law that took effect on 1 July 1991, joint and foreign owned ventures pay a combined national and provincial tax levied at 33% of pre-tax income. A foreign-owned enterprise with income from sources in China but not established there pays a 20% withholding income tax, and royalties for certain types of technical knowledge are taxed at 10% of the revenue amount. Individuals are required to submit individual income tax returns to the Tax Bureau on a monthly basis. As of 1 January 1996, tax rates ranged from 5% to 45% for individual income tax.

### 37 CUSTOMS AND DUTIES

Although China is in the process of aligning its trade system with international standards, prohibitively high tariffs and quotas discourage many imports. It uses the Harmonized System for tariff classification. A minimum tariff rate is granted to countries that have special agreements with China, including the United States. Tariff rates range from 3–100% with the highest rates reserved for goods such as automobiles. Raw materials are exempt. In 1996, as a step toward WTO compliance, China reduced tariffs on more than 4,000 products by an average of 30%, and then reduced tariffs even further in 2001 in preparation for WTO accession. In 2000, the US-China Trade Relations Working Group successfully opened trade relations with China, with such agreements as: reducing the automobile tariff from a maximum of 100% to a maximum of 25%; reducing auto parts tariffs from 23.4% to 10%; and eliminating quotas by 2005. In addition, China agreed to a reduction in chemical tariffs from about 15% to 7% and a reduction in textile tariffs from 25% to 12% by 2005 (but a quota safeguard would be available in the event that the industry failed). Steel tariffs were to be reduced from 10% to 6% by 2003. These reductions would be implemented on a sliding yearly basis. Most other tariffs have been scheduled for reduction by more than 50%, to an average of 9.4% by 2005 on industrial tariffs and an average of 17% on agricultural tariffs by 2004. China acceded to the World Trade Organization on 11 December 2001.

Official PRC policy is that direct trade with Taiwan is interregional, rather than international, since Taiwan is considered a province of China and, therefore, no customs duties are levied. There are free trade zones in Shanghai, Tianjin, Dalian, Haikou, the Hainan Island Special Economic Zone, and within the Shenzhen Special Economic Zone. Smuggling, reportedly well organized along the coasts of Guangdong, Fujian, and Zhejiang provinces and in the frontier regions of Tibet and Yunnan, is a major governmental concern.

### 38 FOREIGN INVESTMENT

China strongly emphasizes attracting foreign investment in projects that will enhance the nation's economic development. Beginning in the early 1970s, China contracted for the construction of a substantial number of complete plants, notably for iron and steel, automobile, and fertilizer manufacture and power generation, including nuclear power. Such agreements, often made with private firms from Japan, Germany, Italy, France, the United Kingdom, and Canada, as well as with

agencies of the Communist states, all called for direct purchase of materials and services. Residual ownership by foreigners and remittance of profits from production were expressly disallowed. In 1979, China established the Foreign Investment Control Commission to attract and coordinate foreign investment, and the first four Special Economic Zones (SEZs) in southern China at Shenzhen, Xiamen, Shantou, and Zhuhai to attract foreign investment (the fifth SEZ was established on Hainan Island in 1988). China's policies toward private investment have become increasingly open. In the 1980s, foreign investment was restricted to export-oriented businesses, and foreign investors were required to enter into joint ventures (JVs) with Chinese counterparts in order to enter the market. Under the Joint Ventures Law, enacted in 1979 and revised in 1982, the development of joint ventures for the production of exports has been particularly stressed as a means of securing for China the foreign exchange needed to pay for purchases of advanced technology. Foreign investment in products for the domestic market, other than those needed for modernization, was discouraged. In 1984, further foreign investment opportunities were created with the designation of 14 open coastal cities—Shanghai, Guangzhou, Tianjin, Fuzhou, Dalian, Qinhuaodao, Yantai, Qingdao, Lianyungan, Nantong, Ningbo, Wenzhou, Zhanjiang, and Beihai—where preferential incentives could also be offered. Since then, 52 state-approved economic and technology zones have come into existence, and most provinces, regions, and major municipalities have their own international and trust investment corporations, of which the one in Shanghai is the largest. Special corporations for the attraction of investment by overseas Chinese have been established in Fujian and Zhejiang provinces. In the early 1990s, the government began allowing foreign investors to manufacture and sell an increasingly wide variety of goods in the domestic market. From the mid-1990s, wholly foreign-owned enterprises (WFOEs) have been allowed to operate. In 2000 and 2001, China revised its laws on JVs and WFOEs to eliminate requirements for foreign exchange balancing, to eliminate domestic sales ratio requirements, to eliminate or adjust advanced technology and export performance requirements, and to modify provisions on domestic procurement of raw materials. With China's accession to the WTO in November 2001, foreign investment opportunities were further expanded with the removal of financial and distribution services from the restricted list. Only the production of arms, and the mining and processing of certain minerals are currently off-limits to foreign investment.

China attracts capital in four ways: (1) by soliciting loans and credits from foreign governments and international financial institutions; (2) by floating bonds and debentures on international capital markets; (3) by promoting direct foreign investment through joint ventures and other cooperative enterprises; and (4) by accumulating trade surpluses from export sales.

From 1979 to 2000, according to Chinese government figures, FDI totaled \$350 billion. This figure includes investment from the Special Administrative Regions (SARs) of Hong Kong and Macao as well as from Taiwan. On an annual basis, this not-very-foreign proportion of FDI has dropped from over two-thirds to an average of 45.5% for 1999 and 2000. (Analysts have also estimated that 10% to 30% of FDI from Hong Kong actually comes from Chinese mainland companies looking for a tax break). From 1979 to 1990, double-digit annual growth rates in the early years (55% in 1984 and 38% in 1985) declined to a low of 2.7% in 1990, the year after the Tiananmen Square violence. However, in 1991, FDI increased 25% and then soared by triple digits in 1992 (152%) and 1993 (150%). By the end of 1995, over 258,000 foreign-invested enterprises had registered in China. In 1996 a World Bank study found that China attracted more than one-third of all investment in factories and other manufacturing plants in developing nations. Growth rates, of

course, moderated after their early surge, but it was not until the Asian financial crisis of 1997–98, precipitated by China's reabsorption of Hong Kong in June 1997, that annual FDI levels stagnated, with a 0.45% growth rate in 1998, and then declined, with an 11.1% fall in 1999 from \$45.46 billion to \$40.4 billion annual FDI. In 1999 foreign invested firms numbered 300,000 and accounted for almost 50% of exports. In 2000, FDI only grew 0.9%, to \$40.77 billion, but in 2001, a 14.6% increase sent annual FDI to a record \$46.8 billion.

China continues to have no mergers and acquisitions law that would permit the involuntary take-over of a company. A company can be bought outright but the sale requires specific government approval, as do all investments in China. Indirect foreign (or portfolio) investment (FII) is limited to those willing to invest in the mainland companies listed on the Chinese stock exchange. Mainland companies raised about \$22 billion in 2000. This fell to about \$12 billion in 2001, reflecting the near 50% drop in foreign investment worldwide following the 11 September 2001 terrorist attacks on the United States.

Until the early 1980s, the flow of Chinese funds abroad was confined to assistance to developing countries and to investment in Hong Kong real estate. In 1983, however, China began making direct investments overseas, in the United States, Canada, the Solomon Islands, and Sri Lanka. China has been a significant supplier of development aid to other countries. Recipients of Chinese military and economic assistance have included the DPRK, Vietnam, Egypt, Pakistan, and Tanzania.

### **39 ECONOMIC DEVELOPMENT**

A profound restructuring of China's economy began in 1949 following the founding of the PRC. Adhering to orthodox models borrowed wholesale from the former USSR, the PRC brought all major industrial, infrastructure, and financial enterprises directly under state ownership. Agriculture was collectivized. Management of the economy was closely controlled by central authorities, whose powers extended to the allocation of basic commodities and the basic division of resources into investment, consumption, and defense channels. Centralized planning for economic development was introduced in the form of five-year economic plans.

The first five-year plan (1953–57), belatedly announced in 1957, pursued rapid industrialization along Soviet lines, with a special emphasis on increases in steel and other heavy industries. The plan reportedly achieved its goals of a 5% gain in gross value of agricultural output and a 4% gain in grain production, and exceeded the 19% growth target in gross value of industrial output.

The second five-year plan (1958–62) was voided at its start by the social and economic upheavals of the Great Leap Forward. At the heart of the Great Leap was the establishment of the self-sufficient rural commune; decentralization of industry was stressed, and the rural unemployed put to work in “backyard steel furnaces” and other industrial enterprises of dubious efficiency. Incomes were determined by need, and coercion and revolutionary enthusiasm replaced profit as the motivation for work. Publication of economic data ceased at this time, but Western observers estimated a 1% decline in agriculture for the 1958–60 period, an increase in GNP of only 1%, and no more than a 6% increase in industrial output. After the bad harvests of 1960 and 1961, an “agriculture first” policy was adopted under which large areas of semiarid steppe and other marginal lands in the north and west were converted to agricultural use.

A third five-year plan (1966–70), formulated by governmental pragmatists and calling for rapid growth of all sectors, was aborted by the outbreak of the Cultural Revolution. In 1969, the government published a report calling for a more open approach to foreign assistance and trade. Domestically, it confirmed the use of the “mass line”—the system of calling upon workers and



peasants to take responsibility and initiative, and to work without material incentives. It favored the simultaneous use of modern and traditional employment methods (the “walking on two legs” policy), and recommended expansion of industry through investment of profits derived from the sale of agricultural and light industrial products. At the heart of the 1969 policy was a reversion to the commune system of 1958—a program to make the countryside self-sufficient, with every commune not only growing its own food but also producing its own fertilizer and tools, generating its own electricity, and managing its own small handicrafts factories, health schemes, and primary schools. In contrast to the hastily organized communes of 1958–60, however, the new units frequently adhered to the traditional—and more manageable—structure of Chinese rural life.

Long-range economic planning resumed in 1970 with the announcement of a fourth five-year plan, for 1971–75. In late 1975, Premier Zhou Enlai proclaimed the plan successful. Agricultural output was reported to have grown by 51% during the 1964–74 period, while gross industrial output was said to have increased by 190%. Specifically, the following growth rates (1964–74) for mining and industry were reported: petroleum, 660%; coal, 92%; steel, 120%; cotton yarn, 86%; tractors, 540%; chemical fertilizers, 350%; and electric power, 200%.

A fifth five-year plan (1976–80), announced in 1975, gave priority to modernization of the economy and, for the first time, emphasized the development of light rather than heavy industry. Implementation of this new departure was, however, delayed by the deaths of Mao and Zhou in 1976 and did not occur until 1978, by which time the economic pragmatists, led by Deng Xiaoping, had emerged victorious from the subsequent political and ideological struggles.

The sixth five-year plan (1981–85), announced in November 1982, reemphasized China’s commitment to the pragmatic line and to the Four Modernizations. Approximately \$115 billion was allocated for capital construction, and another \$65 billion for renovation of existing infrastructure. GNP increased by an annual average of 10%, industrial output by one of 12%, and agricultural output by one of 8.1%.

The seventh five-year plan (1986–90), announced in March 1986 and called by Deng Xiaoping “The New Long March,” featured the following major goals: increasing industrial output 7.5% annually (to \$357 billion), agricultural output 4% annually (to \$95.4 billion), national income 6.7% annually (to \$252.7 billion), and foreign trade 40% (to \$83 billion); spending \$54 billion on 925 major development projects in energy, raw materials, transportation, and postal and telecommunications; and investing \$74.6 billion in technological transformation of state enterprises. Rural per capita income was to rise to \$151 annually.

Concerns about the unevenness of China’s economic development progress, both in geographic and sectoral terms, shaped the country’s eighth five-year plan. To ameliorate potentially crippling bottlenecks in the supply of raw materials, energy, transportation, and communications capacity, the government prioritized the financing of infrastructure investments. Streamlining of inefficient state industrial enterprises was targeted as well, with the setting up of an unemployment security fund planned in order to assist laid-off workers make the transition to employment in nonstate industry and the services sector. Direct foreign investment in industry, services as well as infrastructure (especially energy and communications development) were promoted. The plan also emphasized better distribution of the country’s development momentum. Inland cities, especially along the Russian, Mongolian, and North Korean borders were targeted for development as export-oriented special economic zones in addition to coastal areas. Particular emphasis was given to developing major infrastructure projects to link Hong Kong, Macao and the Pearl River delta area of

Guangdong province into an integrated economic area and major export base for the 21st century.

The ninth five-year plan (1996–2000) called for a shift from a centrally planned economy to a “socialist market economy.” It also stressed resource allocation to achieve higher efficiency. The goals included continuing progress toward quadrupling the 1980 GNP by the year 2000 (a goal that had already been met by 1996) and doubling the 2000 GNP by the year 2010, a goal carried over into tenth five-year plan (2001–2005). By the end of 2002, the Chinese economic growth had come through two major external shocks (the Asian financial crisis of 1997–98 and the global economic slowdown of 2001–02) without seriously faltering, at least according to official government figures. Real GDP growth at 8% in 2000, dipped to 7.3% in 2001, and a growth rate of 7% is forecast for 2002. Inflation has been held near to zero or below, with three of the last five years showing a slight deflation in consumer prices (-0.8% in 1998; -1.4% in 1999 and a forecast of -0.4% in 2002). In 2000 and 2001 inflation was below 1%, at .4% and 0.7%, respectively.

The tenth five-year plan (2001–2005) basically calls for a continuance of these trends: average GDP growth rates of 7% with a goal of reaching a GDP of \$1.5 trillion by 2005 in the context of stable prices. Nominal per capita income would reach \$1,135, based on a natural population growth rate of only nine per thousand, which would bring China’s population to 1.33 billion by 2005. The government estimates that the labor force will increase 40 million by 2005, and that there will also be 40 million surplus rural laborers to be transferred, as the proportion of the labor force in agriculture drops from 50% (2001 est.) to a planned 44% by 2005. Under the tenth fiscal year plan the government sought to improve its “socialist market economy.” Priorities include establishing a “modern enterprise system” in the state-owned enterprises (SOEs), improving social security, and increasing the depth and breath of participation in the international economy. Registered urban unemployment, at 3.6% in 2001 and below 4% in 2002, was to be controlled at about 5% under the tenth plan. The CIA estimated that total urban unemployment was about 10% in 2001, and that there was substantial underemployment in rural areas. The tenth fiscal year plan foresaw agriculture’s share in the GDP decreasing to 13% by 2005 from 17.7% in 2001, while industry’s share was expected to increase from 49.3% to 51%, and the share of services, from 33% to 36%, across the planning period. Educational goals include attaining gross enrollments of 90% at the junior high school level, 60% in high school and 15% in higher education. Environmental targets include attaining a 18.2% forest coverage, a 35% urban green rate, and an overall 10% reduction in pollutants discharged from 2000 levels.

## 40 SOCIAL DEVELOPMENT

Social welfare programs cover workers in state-operated enterprises and institutions, which include virtually all employees of government agencies, mining, manufacturing, industry, railroad, shipping, and construction units. Welfare in rural areas is administered by the state and collective farms, which provide clothing, shelter, and food for sick and disabled people and place the aged in homes. Recreational and cultural services are also supported through welfare payments. Although wage scales in China remain low, the range of benefits has been expanding. According to the Labor Law, male workers and professional women are eligible to retire at age 60, female non-salaried workers at 55, and other women at age 50. The amount of the pension is decided by the local or city government based on the standard of living in that area.

Workers may receive six months’ sick leave at 60–100% of salary. For work-related total disability, workers are entitled to lifetime compensation of 75–90% of the standard wage. Maternity leave at full pay is provided for up to 90 days. In

addition, numerous health, day-care, and educational benefits are provided free of charge. In urban areas, housing rentals rarely exceed 5% of the monthly wage.

The economic status of women, formerly considered little more than chattels for their husband's family, improved considerably after 1950, aided by the introduction of a work-point system of payment on the communes and by legislation guaranteeing equal pay for equal work. A campaign to increase literacy among women, formerly denied education, also opened doors to increased employment opportunities. The 1950 Marriage Law abolished arranged marriages, outlawed polygamy, and further protected women's rights by granting widows the right to remarry without the consent of the dead husband's family and guaranteeing to women as well as to men the right of divorce. Nonetheless, it is still usual for a woman to move in with her husband's family after marriage, and women continue to be significantly underrepresented at the higher levels of government.

Despite constitutional provisions, women may face discrimination in the workplace. Women continue to report that unfair dismissal, sexual harassment, demotions, and wage disparity are significant problems. In addition, some enterprises are reluctant to hire women because of the additional costs of maternity leave. Most women earn less than men, and make up approximately 70% of the nation's illiterate population. Violence against women remains a serious problem, and spousal abuse goes largely unreported. The suicide rate among women is three times the global average.

A serious human rights problem is female infanticide by families wishing for sons. The imbalance of sex ratios in the country has led to a shortage of women of marriageable age, and a dramatic increase in the abduction of women for this purpose. The government continued to condemn and took steps to curb traditional abuse of women.

China's human rights record continued to draw international censure. Ongoing human rights abuses include arbitrary and lengthy detention, forced confessions, torture and the mistreatment of prisoners. Repression of political dissent continues. Prison conditions are poor and China does not allow any independent monitoring of its prisons. Widespread human rights abuses have also been reported in Chinese-occupied Tibet. The government does not tolerate any political dissent or pro-independence movements in Tibet.

## 41 HEALTH

A revamping of China's health system is under way to manage serious diseases. The Ministry of Public Health's ninth five-year plan on the control of serious diseases outlined major reforms to be reached by the year 2000. These include strengthening epidemic prevention management systems and facilities. National health practices, including the provision of both Western and traditional Chinese health services are under the supervision of the Ministry of Health. The ministry has emphasized preventive medicine and general improvement of sanitary conditions.

Since the early 1950s, mass campaigns have been mounted to deal with major public health problems. These have included nationwide cleanup campaigns and mass educational programs in the sanitary preparation of food, the treatment of drinking water, personal hygiene, and waste disposal. The entire population was mobilized to eradicate the four pests—rats, sparrows, flies, and mosquitoes—with mixed results. Epidemic prevention centers were established to carry out massive immunizations, while parasitic diseases, affecting hundreds of millions in China, were also attacked. As a result, schistosomiasis, malaria, kala-azar, and hookworm are thought to have been largely brought under control. The country's 1991–1995 five-year plan was instituted to upgrade services yet again. The prevalence of infectious diseases was to be lowered by 20% by 1990; all provinces were to provide

primary medical care to citizens; there were plans to add 450,000 hospital beds and 500,000 technical health workers; and the availability of health insurance was forecast to increase. From 1985 to 1992, 90% of inhabitants had access to health care services. In 2000, 75% of the population had access to safe drinking water and 38% had adequate sanitation.

There were 62,000 hospitals at the end of 1990 (a rise of 3,000 over 1985) and total beds numbered 2.6 million (up by 370,000), a rate of 2.33 per 1,000. As of 1999, there were an estimated 1.7 physicians and 2.4 hospital beds per 1,000 people. During the Cultural Revolution, in an effort to even out the disparity between rural and urban health services, medical personnel from hospitals (as much as 30–50% of a hospital's medical staff) were included in groups of people sent down to the countryside and the number of locally trained paramedical personnel, called barefoot doctors, expanded. An increasingly important medical factor since the Cultural Revolution, these young peasants or middle-school graduates have been trained on the job by township doctors or in two-month courses at township health clinics. Barefoot doctors and production teams and brigade health stations are still the major deliverers of health care in the countryside.

As of 2000, an estimated 83% of married women (ages 15 to 49) used contraception. The infant mortality rate was reduced from as high as 200 per 1,000 live births before 1949 to an estimated 32 per 1,000 in 2000. The maternal mortality rate was estimated at 55 per 100,000 live births in 1998. In the mid-1990s, China vaccinated a high percentage of its children up to one year of age: tuberculosis, 94%; diphtheria, pertussis, and tetanus, 93%; polio, 94%; and measles, 89%. Despite the high immunization rates, diseases still persist. China had the greatest number of tuberculosis cases of any UN member state. In 1999, there were 103 cases of tuberculosis per 100,000 people. According to the World Health Organization, cholera was reported in 10,344 individuals in 1995. In China, which accounts for 20% of the world's tetanus cases, over 90,000 a year die from neonatal tetanus. In the mid-1990s, only 10% of pregnant women were immunized against tetanus.

Average life expectancy in 2000 was 70 years, up from an average of 45 years in 1950. From 1985 to 1990, major causes of death were recorded as: communicable diseases and maternal/perinatal causes (117 per 100,000), noncommunicable diseases (696 per 100,000), and injuries (88 per 100,000). In an effort to prevent the spread of AIDS, the government (in 1987) required the testing of all foreigners for the HIV virus. HIV prevalence in 1999 was 0.1 per 100 adults. At the end of 2001 the number of people living with HIV/AIDS was estimated at 1.25 million and deaths from AIDS that year were estimated at 17,000.

## 42 HOUSING

China has an acute shortage of housing, attributable not only to the large annual increases in population (over 10 million a year) that must be accommodated but also to the long-standing policy of directing investment funds into heavy industry rather than into housing and other social amenities. In the mid-1990s, the total number of housing units in China stood at 276,502,000. Approximately 400,000 new dwellings were completed per year and 90.6% of all homes had piped water. By the end of 2002, an additional 19.25 million square meters of commercial housing had been completed, presenting a 10.5% increase from the previous year. The government expects to build 486 million to 549 million square meters of floor space each year for the first 20 years of the 21st century. In 2002, the annual investment for housing was at about US\$97 billion. During the 1990s, the government began a program of transferring ownership of state-owned housing into private hands at fairly low costs and with subsidized mortgages. As a result, an estimated 73% of families own their own residence.

### 43 EDUCATION

Prior to 1949, schools were available for less than 40% of school-age children; 85% of the people were illiterate. During 1949–59, school attendance increased nearly fourfold. In 1959, about 50 million children received preschool education; primary schooling was nearly universal, with some 92.6 million students (between 85% and 90% of all school-age children) in primary schools; 12 million were in secondary schools. By 1966, total school enrollment in China reached 116 million, with the average pupil receiving 5.5 years of formal schooling.

The Cultural Revolution affected education more than any other sector of society. Schools were shut down in mid-1966 to give the student Red Guards the opportunity to “make revolution” on and off campus. The Cultural Revolution touched off purges within the educational establishment. Upper- and middle-level bureaucrats throughout the system were removed from office, and virtually entire university faculties and staffs dispersed. Although many lower schools had begun to reopen during 1969, several universities remained closed through the early 1970s, as an estimated 10 million urban students were removed to the countryside to take part in labor campaigns. During this period and its aftermath, revolutionary ideology, and local conditions became the principal determinants of curriculum. A nine-year program of compulsory education (compressed from 12 years) was established for youths 7–15 years of age.

Education was reoriented in 1978 under the Four Modernizations policy, which restored the pre-1966 emphasis on competitive examinations and the development of special schools for the most promising students. The most striking changes were effected at the junior and senior high school levels, in which students were again streamed, according to ability, into an estimated 5,000 high-quality, well-equipped schools, or into lower-quality high schools, or into the technical and vocational schools, which were perceived as the least prestigious. In addition, 96 universities, 200 technical schools, and 7,000 primary schools were designated as “key” institutions. Universities were reopened, with a renewed emphasis given to science and technology. During the 1980s, having universal primary education instituted by 1990 became a main goal.

By 1998, there were 628,840 primary schools with 5,794,000 teachers and 139,954,000 students. Student-to-teacher ratio stood at 24 to 1. At the secondary level, there were 4,437,000 teachers and 718,883,000 students. As of 1999, 93% of primary-school-age children were enrolled in school. For the year 2000, adult illiteracy rates (per UNESCO) were estimated at 15.0% (males, 7.7%; females, 22.6%). In 1995, public expenditure on education was 2.2% of GDP.

In 1985 there were 1,016 colleges and universities in China. Among the largest and most prestigious institutions were Beijing University and Qinghua University, both in Beijing; Zhongshan University, in Guangzhou; Nanjing University and Nanjing Institute of Technology; Nankai University and Tianjin University, in Tianjin; and Fudan University, in Shanghai. Graduate education resumed in the late 1970s; the number of graduates increased from 147,111 in 1981 to 645,510 in 1991. By 1998, the number of students enrolled in post-secondary institutions totaled 6,075,215, with 516,400 teachers.

Tuition has traditionally been free in vocational secondary schools, and in training schools for elementary teachers, as well as in colleges and universities; students in need of food, clothing, and textbooks receive state grants-in-aid. Primary and general secondary school students pay a nominal tuition fee. Part-time primary and secondary schools, evening universities, and correspondence schools exist for adult workers and peasants.

### 44 LIBRARIES AND MUSEUMS

The National Library in Beijing (founded in 1909) is the largest in China, with over 22 million volumes, including more than 291,000 rare ancient Chinese books and manuscripts. The Chinese Academy of Sciences Central Library, in Beijing, has a collection of 6.2 million volumes, with branches in Shanghai, Lanzhou, Wuhan, and Chengdu. The Capital Library in Beijing (2.6 million volumes) is the city’s public library and operates lending, reference, and children’s services. The Shoudou Library, also in Beijing, has 2.35 million volumes.

Small lending libraries and reading rooms can be found in factories, offices, and rural townships. The library of Beijing University, with over four million volumes, is the largest university library. Other important university collections are at Nanjing University in Nanjing (3.2 million volumes), Fudan University in Shanghai (3.6 million volumes), and Qinghua University in Beijing (2.5 million volumes). The Central Institute of Nationalities in Beijing—one of dozens of private institutions with libraries—has a collection of 800,000 volumes, including 160 foreign-language journals.

China has a wealth of about 1,000 museums, most of them cultural in nature. The Imperial Palace Museum in Beijing houses collections of art, sculpture, silk fabric, and furniture. The Museum of the Chinese Revolution, on Tiananmen Square, has exhibits of the revolutionary movement in China from the Opium War to the founding of the PRC. In Shanghai is the Museum of Art and History, with some of the country’s outstanding archaeological and art collections. Many museums are memorials to Chinese artists and writers, and house collections of their work. China also has 500 historical sites with exhibitions. With the return of Hong Kong to China, the country gained the Hong Kong Museum of Art, the University Museum and Art Gallery, the Hong Kong Museum of History, and the Hong Kong Space Museum.

### 45 MEDIA

Postal service and telecommunications facilities fall under the authority of the Ministry of Posts and Telecommunications. The posts are responsible for the sale and distribution of newspapers and magazines, an important function in a country that relies heavily on these media for mass communication. Mail is delivered twice a day seven days a week. There were 53,600 post offices in 1990. In 2000, there were an estimated 135 million mainline telephones in use. In 2001, an additional 65 million cellular phones were in use.

#### Radio, Television and Internet

Television broadcasting began in 1958, and color transmissions in 1973. As of 1998 China had 369 AM and 259 FM radio broadcasting stations. In 1997, China Central Television operated 209 government-owned television stations. There were also 31 provincial stations and almost 3,000 city stations. The most important station is Beijing’s Central People’s Broadcasting Station (CPBS); from there, programs are relayed by local stations. CPBS broadcasts daily on several channels using a variety of languages, including Mandarin (or standard Chinese), the Hokkien and Hakka dialects, Cantonese, Mongolian, Tibetan, Uygur, Kazakhi and Korean.

In 2000 there were 339 radios and 293 television sets for every 1,000 people. Many of the TV sets are installed in public meeting places and in government and economic enterprises, although increasingly a television set has become a much-prized private acquisition. Since large segments of the rural population are as yet without radios and television sets, the government operates a massive wired broadcast network linked to over 100 million loudspeakers.

Despite controls, a rapidly growing number of Chinese have access to satellite television and the Internet. The government regulates access of the Internet through the Ministry of Information Industry and the Ministries of Public and State Security. In 2000 there were three Internet service providers, which were serving 26.5 million subscribers in 2001.

### The Press

The press is closely controlled by the government, the CCP, or the various political and mass organizations associated with the CCP. Minority newspapers are published in Mongolian, Uygur, Tibetan, Korean, and other languages. The main news agencies are the official New China (Xinhua) News Agency; the China News Service, which supplies information to overseas Chinese newspapers and journals; and China Feature, which supplies articles to magazines and newspapers worldwide.

The Cultural Revolution caused substantial upheaval in the Chinese press establishment. Many publications closed down, and others underwent purges of editorial staffs. Publication of *Hongqi* (Red Flag), the most authoritative of the CCP publications, resumed in 1968.

The major newspapers, with their locations and circulations in 2002, are:

CHINA	LOCATION	CIRCULATION
<i>Gongren Ribao</i> (Worker's Daily)	Beijing	2,500,000
<i>Renmin Ribao</i> (People's Daily)	Beijing	2,150,000
<i>Xin Min Wanbao</i> (Xin Min Evening News)	Shanghai	1,800,000
<i>Wenhui Bao</i> (Wenhui Daily)	Shanghai	1,700,000
<i>Yangcheng Wanbao</i> (Yangcheng Evening News)	Guangzhou	1,300,000
<i>Jiefang Ribao</i> (Liberation Daily)	Shanghai	1,000,000
<i>Jiefangjun Bao</i> (Liberation Army Daily)	Beijing	800,000

*Jiefangjun Bao*, the army news, played a leading role in the Cultural Revolution. China's first English-language newspaper, the *China Daily*, founded in 1981, is published in Beijing and had a circulation of 150,000 in 1999. The most authoritative publication for foreigners is the multilingual weekly *Beijing Review*, which distributed in China and abroad, with a 1995 circulation of more than 100,000.

In 2002, Hong Kong had over 75 daily newspapers in circulation, some of which are English-language papers from other countries, such as the *Toronto Star*, the *Boston Globe*, and the *Australian*. Major Hong Kong dailies and their 2002 circulation are:

HONG KONG	CIRCULATION
<i>Tin Tin Yat Pao</i>	199,260
<i>Sing Tao Wan Pao</i>	125,000
<i>Wah Ku Yat Po</i>	125,000
<i>Ching Pao</i>	120,000
<i>Hong Kong Commercial Daily</i>	110,000
<i>South China Morning Post</i>	104,000
<i>Hong Kong Daily News</i>	101,815

The largest daily newspaper in Macau is *Ou Mun Iat Pou* (Macau Daily News, 2002 circulation 100,000).

Though China's constitution states that freedom of speech and of the press are fundamental rights, in practice the Communist Party and the government control all print and electronic media, which are compelled to propagate the current ideological line. All media are under explicit, public orders to guide public opinion as directed by the authorities.

## 46 ORGANIZATIONS

Prior to 1966, the leading mass organizations, all closely tied to the regime, were the Communist Youth League, the Women's Federation, the Federation of Literary and Art Circles, the Federation of Scientific Societies, and the Federation of Industry

and Commerce. These bodies were to some extent eclipsed by the Cultural Revolution, which spawned a host of new groups. After the Cultural Revolution passed its peak, many of the new organizations lost ground, while local Communist Youth League organizations, including the Young Pioneers, gained prestige. By the mid-1980s, the pre-Cultural Revolution groups were once again ascendant.

There are professional and trade organizations representing a wide variety of professional fields. The All China Federation of Industry and Commerce promotes international trade. The All China Federation of Trade Unions serves as an advocate for worker's rights and benefits, particularly for women. The Asia Pacific Occupational Safety and Health Organization (APOSHO) is located in Hong Kong. There are also several organizations dedicated to research and education in various fields of medicine and science. The China National Association of Literature and Fine Arts is based in Taiwan.

National women's organizations include the Association for the Advancement of Feminism (AAF), based in Hong Kong and the All China Women's Federation, based in Beijing. A wide variety of sports organizations are active throughout the country, including the Chinese Table Tennis Association, which has gained international recognition. The largest youth association is the umbrella organization the All-China Youth Federation (ACYF), which is led by the Communist Party of China. Member organizations include the Rural Young Entrepreneurs Association, the Association for Young Journalists, the Communist Youth League (CYL) of China, the All-China Students Federation (ACSF), the YMCA and YWCA, and the Chinese Young Entrepreneurs Association (CYEA). Scouting groups exist in Hong Kong and Macau.

## 47 TOURISM, TRAVEL, AND RECREATION

Chinese restrictions on tourism were eased to allow access by foreigners on group tours in 1976 and further relaxed in 1983, when the ban on individual travel was lifted. By 1985, 244 Chinese cities and scenic spots were open to foreign tourists and a number of resorts specifically designed for foreigners were in operation. China was opened to tourists from Taiwan in 1987. All visitors to China must have visas. In 2000, 10,160,432 tourists arrived in China. Total receipts from tourism in that year were estimated at \$16.2 billion. There were 948,185 hotel rooms with 1,855,965 beds and a 56% occupancy rate. In 2000, the US Department of State estimated that the daily expenses for a stay in Beijing were about \$227.

### Tourist Attractions

The most famous tourist attraction in China is the Great Wall, the construction of which began in the 3rd century BC as a barrier against northern invaders. Other leading tourist attractions include the Forbidden City, or Imperial Palace, in Beijing; the nearby tombs of the Ming emperors; historic Hangzhou, with its famous West Lake and gardens; busy Shanghai, with its well-stocked stores and superb cuisine; Xi'an, the site of monumental Qin dynasty excavations; and Guangzhou, the center of Cantonese cooking, with an extensive Cultural Park.

### Sports

Sports activities in China are coordinated by the State Physical Culture and Sports Commission and the All-China Sports Federation. Active sports, represented by national associations, include gymnastics, diving, basketball, soccer, tennis, cycling, swimming, tennis, volleyball, weight lifting, and mountain climbing.

Distinctively Chinese pastimes include wushu, a set of ancient exercises known abroad as *gonfu* (kung fu), or the "martial arts"; taijiquan, or shadow boxing, developed in the 17th century; and *liangong shibafa*, modern therapeutic exercises for easing neck,

shoulder, back, and leg ailments. Qigong (literally “breathing exercises”) is also widely practiced both as a sport and as physical therapy. A popular traditional spectator sport is Chinese wrestling. Traditional pastimes for the national minorities are horse racing, show jumping, and archery among the Mongolians; the sheep chase (in which the winner successfully locates and defends possession of a slaughtered sheep) among Uygurs and Kazaks; and yak and horse racing among Tibetans.

The costs of traveling in China vary from city to city. In 1999 the UN estimated the daily cost of staying in Shanghai at \$125, Beijing at \$108, and Zhengzhou at \$85.

## 48 FAMOUS CHINESE

Confucius (K'ung Fu-tzu or Kong Fuzi, 551–479 BC) is generally regarded as the most important historical figure, as well as the greatest scholar, of ancient China. His philosophy and social ideas include observance of filial piety, the sanctity of the family, and social responsibility. Other early philosophers were Lao-tzu (Laozi; Li Erh, 604?–531 BC), the traditional founder of Taoism; Mencius (Meng-tzu or Mengzi, 385–289 BC), who stressed the essential goodness of human nature and the right of subjects to revolt against unjust rulers; and Mo Ti (Di, 465?–390? BC), who stressed the theme of universal love. Among the principal early poets was Chu (Chü) Yuan, (340–278 BC), whose *Li Sao*, a melancholy rhapsody, is among the world's great poems. Sima Qian (Ssu-ma Ch'ien, 145–87 BC) produced the monumental *Shih-i* (*Shih-chi; Historical Records*), the first general history of China. Ban Gu (Pan Ku, AD 32–92) wrote *Qian Hanshu* (*Ch'ien-Han shu; History of the Former Han Dynasty*), a continuation of Sima Qian's work. Zhang (Chang) Heng (78–139), an astronomer, is credited with having invented the first seismograph. Zhang Zhongjing (Chang Chung-ching, 152–219) was a celebrated physician, and Zu Zhongzhi (Tsu Chung-chih, 429–500) calculated the figure 3.14159265 as the exact value for  $\pi$ . Three brilliant poets of the Tang dynasty were Li Bo (Po, 701–62), Du (Tu) Fu (712–70), and Bo Juyi (Po Chü-yi, 772–846). Li Shizhen (Shi-chen, 1518–93), an outstanding pharmacologist, wrote a monumental *Materia Medica*. Great authors of the Qing dynasty were Wu Jingzi (Ching-tzu, 1701–54), who wrote *Rulin Waishi* (*Ju-lin wai-shih; Unofficial History of the Scholars*), a superb satire on the civil service system, and Cao Xuequin (Ts'ao Hsüeh-ch'in, 1715?–63), who produced a remarkable novel, *Honglou meng* (*Hung-lou meng; The Dream of the Red Chamber*). Lu Xun or Lu Hsun (Zhou Shuren or Chou Shu-jen, 1881–1936) is generally regarded as China's greatest writer of the modern period. Mao Dun (Shen Yanbing, 1896–1981) and Ba Jin (Li Feigan, b.1904) are leading novelists. Lin Yutang (Yu-t'ang, 1895–1976) popularized Chinese culture in the West.

## Political Figures

Sun Yat-sen (Zhongshan or Chung-shan, 1866–1925) planned the revolution against the Manchus and became the first president (1911–12) of the republic. Mao Zedong (Tse-tung, 1893–1976), the foremost figure of postrevolutionary China, served as chairman of the Central Committee of the CCP from 1956 to 1976. Other prominent Chinese Communist leaders include Zhu De (Chu Teh, 1886–1976), who became commander in chief of the Red Army in 1931 and chairman of the Standing Committee of the NPC; Zhou Enlai (Chou En-lai, 1898–1976), first premier of China's State Council; Liu Shaoqi (Shao-ch'i, 1898–1969), who became China's head of state in 1959 and was purged during the Cultural Revolution but posthumously rehabilitated in 1985; and Lin Biao (Piao, 1908–71), who became deputy premier and minister of defense in 1959 and who, prior to his death and subsequent political vilification, had been certified as Mao's successor in the constitution drawn up in 1969. Women in the political hierarchy have included Song Qingling (Soong Ch'ing-ling, 1892–1981), Sun Zhongshan's wife, and Jiang Qing

(Chiang Ch'ing, 1913–1991), Mao's fourth wife, who emerged as a radical leader during the Cultural Revolution. Jiang, with other prominent radicals, was purged in the wake of the ascension of Hua Guofeng (b.1920) as CCP chairman in 1976. Deng Xiaoping (1904–97), twice disgraced (1966–73 and 1976) by radical administrations, reemerged in 1977 to become China's most powerful political figure, albeit without major office, and a major figure in its modernization drive; he officially retired in 1987. A protégé, Hu Yaobang (1915–1989), was party secretary until his ouster in 1987. Another protégé, who emerged in 1987 as the likely preeminent Chinese leader of the future, although still currently in the political shadow of Deng, was Zhao Ziyang (b.1919), who became general secretary of the CCP in 1987; Li Peng (b.1928) was named premier in the same year.

## 49 DEPENDENCIES

### Hong Kong

Hong Kong consists of 237 small islands off the southeast coast of the mainland of China and a small peninsula adjoining Guangdong Province on the mainland between 22°29' and 22°37' N and 113°52' and 114°30' E. With a total area, including reclamation, of 1,068 sq km (412 sq mi), it comprises the island of Hong Kong and adjacent islands, 79 sq km (30 sq mi); the Kowloon Peninsula, 11 sq km (4 sq mi); and the New Territories (a leased section of the Chinese mainland) and the remaining islands, 978 sq km (377 sq mi). Most of Hong Kong territory is rocky, hilly, and deeply eroded. The climate is subtropical, with hot and humid summers. Rainfall is heavy, and there are occasional typhoons.

Total population, which was under 600,000 in 1945, was approximately 7.3 million in 2002. Some 60% of Hong Kong's residents in 1996 were born there. The phenomenal increase since World War II (1939–45) resulted primarily from a large influx of mainland Chinese. During the late 1970s and early 1980s, hundreds of thousands of “boat people” arrived from Vietnam. Most have been resettled in other countries, and by mid-1987 only 8,500 remained in camps. In the summer of that year, however, Hong Kong faced another influx of Vietnamese, most of them ethnic Chinese. These people—more than 6,000 of them—had fled to China after the Vietnam war but found it difficult to assimilate there.

The overall population density in 2002 was 5,800 per sq km (14,500 per sq mi). About 95% of the inhabitants are Chinese, and about 95% of the people live in metropolitan areas. Chinese (Cantonese dialect) is the principal spoken language; both Chinese and English are official languages. Taoists, Confucianists, and Buddhists constitute a majority of the population. The Christian population (10%) is split about evenly between Roman Catholics and Protestants. There are also Muslim and Hindu communities (1%). The capital is Victoria, commonly known as Hong Kong.

Hong Kong has regular shipping, air, cable, and wireless services to every part of the world. Government-maintained roads span more than 1,830 km (1,135 mi). The mile-long Cross Harbour Road Tunnel connecting Hong Kong Island to Kowloon was opened in 1972, and the Lion Rock Tunnels link Kowloon with Sha Tin; the Aberdeen Tunnel beneath Hong Kong Island entered service in 1982. The government-owned Mass Transit Railway, a 38.6 km (24 mi) subway system, was begun in November 1975 and started operations in October 1979. The government also owns and operates a 56-km (35-mi) rail line, known as the Kowloon-Canton Railway. The railroad links up with the rail system of Guangdong Province and constitutes a major land-entry route to China; passenger service, suspended in 1949, was resumed in 1979. The Kowloon-Canton Railway operates a 34-km (21-mi) light rail system for the New Territories; as of 2001, it connected to the China railway system.

Hong Kong has one of the finest natural harbors. There are deepwater berths in Kowloon Peninsula and in Hong Kong; a container terminal at Kwaichung in Kowloon handles some 60% of Hong Kong's exports. An extensive ferry service connects Hong Kong's islands; hydrofoils provide service to Macau. The Hong Kong airport, Kai Tak, is the world's fourth largest in terms of passenger traffic; it can handle upwards of 27 million passengers a year. A new airport, Chep Lap Kok, a US\$20 billion project that included bridges, highways, tunnels, and a high-speed railway, opened in 1998. The first phase of the airport project, the West Kowloon expressway connecting the airport to Hong Kong Island, opened in February 1997. In April that year, another link—the Tsing Ma Bridge, the longest suspension bridge for road and rail travel in the world—opened with lavish ceremonies. Three days later, a tunnel with capacity for 180,000 cars a day opened to provide another link between Hong Kong Island and the West Kowloon expressway.

A bleak fisherman's island for most of its early history, Hong Kong was occupied in 1841 by the British. Formal cession by China was made in 1842 by the Treaty of Nanking. The Kowloon Peninsula and adjacent islands were added in 1860, and in 1898, the New Territories were leased from China for 99 years. Hong Kong fell under Japanese occupation from 25 December 1941 to 30 August 1945. Negotiations between the UK and China culminated in an agreement on 26 September 1984 under which sovereignty over the entire colony would be transferred to China as of 1 July 1997. For a 50-year period, Hong Kong would be a Special Administrative Region and would retain its capitalist economy, its political rights, and its general way of life. A Basic Law, forming a constitution for this period, took effect in 1990.

In the interim, the colony was ruled by a UK-appointed governor, with an advisory Executive Council headed by the local commander of UK forces, and an appointed Legislative Council presided over by the governor. Chris Patten, appointed governor in 1992, held the post until the transfer of control to China 1 July 1997. The Urban Council of 30 members (15 elected and 15 appointed by the governor) dealt primarily with municipal affairs, and the government secretariat was responsible for the work of some 40 executive departments. The public sector's share of GDP decreased steadily after 1973. Under a 1981 defense agreement, about three-fourths of the cost of the maintenance of a garrison of 8,945 troops (including four Gurkha battalions) in Hong Kong was borne by the Hong Kong government. The currency unit is the Hong Kong dollar; exchange rates as of January 2002 were HK\$1 = US\$7.798; US\$1 = HK\$0.1282).

Located at a major crossroads of world trade, Hong Kong has become a center of commerce, shipping, industry, and banking. Rapid industrialization, accelerated by the influx of new labor, skills, and capital, changed the pattern of the economy after World War II. While heavy industries, such as shipbuilding and ship repairing, iron, and steel, remain important, light industries—especially watches, clocks, toys, and electronics—have developed more rapidly in recent years. The service sector has also experienced growth; as of 1999, approximately 86% of Hong Kong's GDP derived from services. In 2001, the gross domestic product (GDP) stood at US\$180 billion, with annual growth from 1989–97 averaging about 5% per year; in 1998, economic difficulties in Asia resulted in a 5% decline in GDP in Hong Kong. By 2000, the economy had recovered somewhat, when the growth rate stood at 10%, but was estimated to be 0% for 2001 and 1.8% for 2002.

Less than 10% of the total land area is used for farming, most of which is intensive vegetable cultivation. Agriculture does not represent a significant portion of Hong Kong's GDP, and most of Hong Kong's agricultural produce is imported. Hong Kong is among the top export markets for US produce.

Electricity is supplied by two franchise companies. Water resources, for long a serious deficiency, have been increased by



converting Plover Cove into a lake. About one-quarter of the water supply is purchased annually from China.

Imports in 2001 were valued at US\$203 billion, and exports and reexports at US\$191 billion. As one of the world's largest banking centers, Hong Kong receives a continuous flow of outside capital. The Hong Kong Association of Banks was created in January 1981 to regulate charges and deposit interest rates and oversee banking standards. There is no central bank; currency is issued by two commercial banks. In addition to the licensed banks, many Chinese firms handle Chinese remittances from overseas.

Hong Kong is self-supportive except for external defense. Revenues in 2001 were at US\$22.9 billion, derived mainly from internal taxation and import duties. Government expenditures, including US\$465 in capital expenditure, amounted to US\$24.6 billion in 2000/01.

Tourism was an important industry prior to 1997, and remained so after the transfer of Hong Kong to China. About one-fourth of the total number of tourists travel to Hong Kong from the United States, Canada, and Western Europe, with another one-fourth from Japan.

Main line telephones numbered about 3.8 million in 1999; mobile cellular telephones numbered about 3.7 million that year. Broadcasting services are provided by a government station, Radio Television Hong Kong, and by commercial operators. Broadcasting services are in both Chinese and English. More than 90% of all households have one or more television sets. The Hong Kong press included 734 newspapers and periodicals. Almost all the newspapers are in Chinese; five are English-language dailies.

The infant mortality rate was 5.73 deaths per 1,000 live births in 2002. The average life expectancy as of 2002 was 79.8 years (females, 82.69 years and males 77.1 years). In 1995, there were



4.7 hospital beds per 1,000 population, and the daily cost of a hospital bed in a public hospital was \$60.

The Hong Kong Housing Authority plans, builds, and manages public housing developments. About 40% of the population lived in public and aided housing as of the late 1990s.

In September 1980, education until the age of 15 was made compulsory; six years of primary and three years of secondary schooling are provided by the government free of charge. Schools are of three types: Chinese, English, and Anglo-Chinese. Prevocational training was offered in more than a dozen government-run institutions. Student enrollment in primary and secondary school is about a quarter of the population. Higher education is provided primarily by the University of Hong Kong and the Chinese University of Hong Kong. Hong Kong Polytechnic and the City Polytechnic of Hong Kong also provides

post-secondary education for the colony's residents. As of the late 1990s, approximately 15% of the population had received education beyond secondary school, and 92% of the population was literate.

### Macau

Macau (Macao) is situated on the south coast of China, at the mouth of the Pearl (Zhu) River, almost directly opposite Hong Kong, which is about 65 km (40 mi) away. Located at 22°6' to 22°13' N and 113°33' to 113°37' E, Macau consists of a peninsula, about 5 km (3 mi) long and 1.6 km (1 mi) wide, and two small islands, Taipa and Coloane. The total area is about 16 sq km (6 sq mi), and the total coastline is 41 km (25 mi). The climate is subtropical, with high humidity from April to October, when Macau receives most of its rainfall. Daily maximum temperatures average 29°C (84° F) during the summer; normal daily temperatures are less than 20°C (68°F) during the winter months.

Macau's population was estimated at 461,833 in mid-2002, down from 496,837 in mid-1996. The population density of over 29,000 per sq km (79,000 per sq mi) was among the highest in the world. Chinese, many of them refugees from the People's Republic of China (PRC) before Macau reverted to the PRC in 1999, constitute 95% of the total; the remaining 5% are Portuguese or of mixed Chinese-Portuguese ancestry. Large-scale movement of Chinese in and out of Macau has inevitably affected the economic and social life of the territory. The common language is Chinese, usually spoken in the Cantonese or Mandarin dialect. Portuguese is spoken by government officials, and some English, French, and Spanish are also understood. As of 1997, Buddhism (50%) and Roman Catholicism (15%) are the dominant religions.

In 1996 there were about 50 km (31 mi) of highways. A causeway links Taipa and Coloane islands, and a 2.7-km (1.7-mi) bridge connects Macau and Taipa. Macau's main asset is its harbor; ferries, hydrofoils, and jetfoils offer shuttle service between Macau and Hong Kong. In 1994, a 240-km (149-mi) road connecting Macau and Hong Kong opened, running through Guangdong Province in the PRC.

Macau is the oldest European settlement in the Far East. The first Portuguese attempts to establish relations with China were made in the early 16th century. In 1557, the Chinese authorities agreed to Portuguese settlement of Macau, with leaseholder rights. The Portuguese, however, treated Macau as their possession and established a municipal government in the form of a senate of the local inhabitants. Disputes concerning jurisdiction and administration developed. In 1833, Macau together with Timor became an overseas province of Portugal under the control of the governor-general of Goa, and in 1849, Portugal succeeded in having Macau declared a free port. On 26 March 1887, China confirmed perpetual occupation and governance of Macau and its dependencies by Portugal, but the question of the delimitation of the boundaries was left unsettled.

As the only neutral port on the South China Sea during World War II (1939–45), Macau enjoyed a modicum of prosperity. In 1949, the government of the PRC renounced the "unequal treaty" granting Portuguese suzerainty over Macau. Civil disturbances in late 1966 between Macau police and Chinese leftist groups resulted in concessions to the territory's pro-China elements. The 1974 military coup in Portugal led to a constitutional change in Macau's status from a Portuguese province to a "special territory." In January 1976, Portugal's remaining few hundred troops were withdrawn from Macau. China and Portugal established diplomatic ties in 1980. In March 1987, the PRC and Portugal reached an agreement for the return of Macau to the PRC on 20 December 1999. The PRC has guaranteed not to interfere in Macau's capitalist economy and way of life for a period of 50 years.

Prior to and immediately following Macau's transfer to PRC control, the unit of currency was the Macau pataca (P) of 100 avos; Hong Kong dollars also circulated freely. There are coins of 10, 20, and 50 avos and 1 and 5 patacas, and notes of 5, 10, 50, 100, and 500 patacas. The pataca is linked to the Hong Kong dollar at the rate of HK\$1 = P1.03. Corporate taxes and import duties are important sources of revenue; major expenditures are for finance, security, education, and health and welfare. Until December 1999, Macau was ruled by a governor appointed by Portugal, although it was empowered to make its own laws, appoint and control its own civil service, and contract directly for foreign loans.

Macau's economy is consumer-oriented. There is little agriculture, and the territory is heavily dependent on imports from China for food, fresh water, and electricity. Important economic sectors are commerce, tourism, gambling, fishing, and light industry. There are small- and medium-scale enterprises concerned especially with the finishing of imported semimanufactured goods, in particular the manufacture of clothing, ceramics, electronic equipment, toys, and fireworks, and the printing and dyeing of cloth and yarn.

Macau's historic role has been that of a gateway for southern China. It has close trade relations with neighboring Hong Kong, another free port. Gold trading, formerly a major facet in Macau's economy, virtually came to a halt in 1974–75 following Hong Kong's decision to lift its own restrictions on gold trading. The principal exports were textiles, clothing, toys, electronics, cement, fireworks, footwear, and machinery. Principal export partners in 2000 were the United States, 43%; European Union (EU), 28%; China, 10%; and Hong Kong, 7%. The principal imports for domestic use are clothing, textiles, yarn, minerals, electrical machinery, fuel, and livestock. Total imports in 2000 were valued at \$2.3 billion, of which China provided 41%; Hong Kong, 15%; EU, 10%; Taiwan, 10%; and Japan, 6%.

Government schools are operated mainly for the children of civil servants and wealthier families, while poor Chinese students are educated in schools supported by China. Macau's University of East Asia opened in 1981. The Medical and Health Department, although critically understaffed, operates a 400-bed hospital. The 800-bed Kiang Vu Hospital has a largely China-trained staff.

Macau has six postal stations, two telephone stations, and two telegraph stations. Macau has 2 FM stations and has access to satellite communications. There are newspapers published in Chinese and Portuguese. Macau receives television broadcasts from Hong Kong.

With its varied gambling facilities, gambling provides about 60% of government revenue. Travelers must have a valid passport and a visa, which is generally purchased at the point of disembarkation. After the transfer of Macau to Chinese control in 1999, there was an increase in tourists arrivals from China.

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# CYPRUS

Republic of Cyprus  
*Kypriaki Dimokratia*

**CAPITAL:** Nicosia

**FLAG:** The national flag consists of the map of Cyprus in gold set above two green olive branches on a white field.

**ANTHEM:** *Ethnikos Hymnos (National Hymn)*, beginning “Se gnorizo apo tin kopsi” (“I recognize you by the keenness of your spade”).

**MONETARY UNIT:** The Cyprus pound (c£) is a paper currency of 100 cents. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 pound, and notes of 50 cents, and 1, 5, 10, and 20 pounds. c£1 = \$1.851 (or \$1 = c£0.54; as of February 2003). The Turkish lira (TL) of 100 kuruş is the currency in the Turkish Cypriot zone.

**WEIGHTS AND MEASURES:** The metric system is the legal standard. Imperial and local measures also are used.

**HOLIDAYS:** New Year’s Day, 1 January; Epiphany, 6 January; Late President Makarios’ Day, 19 January; Greek Independence Day, 25 March; Cyprus National Day, 1 April; Labor Day, 1 May; Cyprus Independence Day, 1 October; Greek Resistance Day, 28 October; Christmas, 25 December; Boxing Day, 26 December. Holidays observed by the Turkish Cypriot community include Founding of the Turkish Federated State of Cyprus, 13 February; Turkish National Sovereignty and Children’s Day, 23 April; Turkish Youth and Sports Day, 19 May; Turkish Victory Day, 30 August; Turkish Independence Day, 29 October. Movable Christian religious holidays include Green Monday, Good Friday, Holy Saturday, and Easter Monday. Movable Muslim religious holidays are observed in the Turkish Cypriot zone.

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

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

Cyprus is the largest Mediterranean island after Sicily and Sardinia. Including small island outposts of Cape Andreas known as the Klidhes, its area is 9,250 sq km (3,571 sq mi). Comparatively, the area occupied by Cyprus is about three-fifths the size of the state of Connecticut. Since 1974, the northern third of the island, or 3,367 sq km (1,300 sq mi), has been under the de facto control of the Turkish Cypriot Federated State (proclaimed in 1975), which on 15 November 1983 proclaimed its independence as the Turkish Republic of Northern Cyprus; the southern two-thirds (5,884 sq km/2,272 sq mi) are controlled by the government of the Republic of Cyprus. A narrow zone called the “green line,” patrolled by UN forces, separates the two regions and divides Nicosia, the national capital.

Cyprus is situated in the extreme northeast corner of the Mediterranean; it is 71 km (44 mi) S of Turkey, 105 km (65 mi) W of Syria, and some 800 km (500 mi) E of the Greek mainland. Cyprus extends 227 km (141 mi) ENE–WSW from Cape Andreas to Cape Drepanon and 97 km (60 mi) SSE–NNW. The average width is 56–72 km (35–45 mi); the narrow peninsula known as the Karpas, which is nowhere more than 16 km (10 mi) wide, extends 74 km (46 mi) northeastward to Cape Andreas. Cyprus has a total coastline of 648 km (403 mi).

The capital city of Cyprus, Nicosia, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

Two dissimilar mountain systems, flanking a central plain, occupy the greater part of the island. The Troodos Massif, in the southwest, attaining its highest point in Mt. Olympus (1,953 m/6,406 ft), sends out numerous spurs to the northwestern, northern, and southern coasts. In the north, a geologically older

range, the Kyrenia Mountains, extend more than 160 km (100 mi) along the coast in a series of rocky peaks, capped often by medieval castles. Between these principal formations lies the Mesaoria, a low plain extending from Famagusta Bay on the east to Morphou Bay on the west. Once forested, this now treeless region, varying in width from 16 to 32 km (10–20 mi), contains the bulk of the island’s cultivable and pastoral area. There are few lakes or rivers; rivers are little more than rocky channels that carry away torrents during the thaw of spring and early summer.

## <sup>3</sup>CLIMATE

Cyprus is for the most part dry and sunny. The warm currents of the Mediterranean ensure mild winters but bring humidity to the coastal area in the summer, when the central plain is hot and dry. On the hills, daily sunshine is interrupted only occasionally by a wet period rarely lasting more than a week. The mean annual temperature is about 20°C (68°F). A cool, rainy season lasts from November to March. In winter, snow covers the higher peaks of the Troodos; elsewhere the temperature seldom falls below freezing, and conditions are mild and bracing. Rainfall is erratic and varies greatly in different parts of the island. The annual average precipitation ranges from below 30 cm (12 in) in the west-central lowlands to more than 114 cm (45 in) in the higher parts of the southern massif. The main agricultural areas receive rainfall of from 30 to 40 cm (12–16 in) annually. Earthquakes are not uncommon.

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

Except for some small lowland areas in which eucalyptus has been planted, the forests are natural growths of great antiquity, from which the Phoenician shipbuilders drew much of their timber. Forests consist principally of Aleppo pine; other

important conifers, locally dominant, are the stone pine, cedar (which is becoming rare), Mediterranean cypress, and juniper, the last growing chiefly on the lower slopes of the Kyrenia Mountains. Oriental plane and alder are plentiful in the valleys, while on the hills, Olympus dwarf oak mingles with pines of various species. Wild flowers grow in profusion, and herbs are numerous.

Cyprus has few wild animals, but birdlife is varied and includes partridge, quail, snipe, plover, and woodcock. Eagles are commonly seen in the mountains.

## 5 ENVIRONMENT

Under the Town and Country Planning Law of 1972, the government has the power to issue "reservation orders" in order to protect historic buildings, trees, or other specific points. Other conservation laws seek to preserve forests, restrict the hunting of wildlife, and maintain environmental health. The most significant environmental problems in Cyprus are water pollution, erosion, and wildlife preservation. The purity of the water supply is threatened by industrial pollutants, pesticides used in agricultural areas, and the lack of adequate sewage treatment. Other water resource problems include uneven rainfall levels at different times of the year and the absence of natural reservoir catchments. Cyprus has 0.2 cu mi of water, of which 91% is used for farming activity. One hundred percent of Cyprus' urban and rural dwellers have access to safe water. Another environmental concern is erosion, especially erosion of Cyprus's coastline. In accordance with the Foreshore Protection Law, several coastal areas have been zoned to prevent undesirable development. The Ministry of Agriculture and Natural Resources has primary responsibility for environmental matters. The expansion of urban centers threatens the habitat of Cyprus' wildlife. As of 1994, one mammal species, 17 types of birds and 43 plant species in a total of 2,000 are threatened with extinction. About 20 species of flora are protected. The Cyprus mouflon or wild sheep is protected in the Paphos Forest game reserve.

## 6 POPULATION

The population of Cyprus (Greek and Turkish zones) in 2003 was estimated by the United Nations at 802,000, which placed it as number 152 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 100 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.76%, with the projected population for the year 2015 at 861,000. The population density in 2002 was 97 per sq km (250 per sq mi). The Turkish sector is more sparsely populated than the Greek zone.

It was estimated by the Population Reference Bureau that 57% of the population lived in urban areas in 2001. Nicosia, the capital city, located near the center of the island in the Mesaoria plain, had a 2002 population of 193,000. Other chief towns—all seaports—are Limassol, Famagusta, Larnaca, Paphos, and Kyrenia. According to the United Nations, the urban population growth rate for 2000–2005 was 1.5%.

## 7 MIGRATION

Cyprus suffered massive population shifts following the Turkish military occupation of the northern third of the island in July 1974. Some 120,000 Greek Cypriots fled from the occupied area to the south, and about 60,000 Turkish Cypriots fled in the opposite direction. As of the 1989, some 611 Greek Cypriots lived in the north, mostly on the Karpas Peninsula, and about 100 Turkish Cypriots remained in the south.

In the 1990s, asylum seekers originated mainly from the Middle East and North Africa. Until 1998, a yearly average of 70 to 100 people applied for refugee status. This figure rose

significantly in the second half of 1998 due to the arrival of approximately 150 asylum seekers who arrived in Cyprus by boat from Lebanon.

Some asylum seekers are detained as illegal entrants or over-stays. While acknowledging the difficulties in dealing with the increased number of asylum seekers, the UNHCR has encouraged the government to find alternatives to detention. The Republic of Cyprus allows recognized refugees to remain with work permits while waiting for resettlement to a third country; however resettlement is a lengthy process, and many refugees never obtain employment. Local integration is to be the preferred solution after adoption of the new refugee law.

In 2000, the net migration rate was 3.9 migrants per 1,000 population, down from 8.4 a decade earlier. There were 49,000 migrants in that year, of which only 100 were refugees. The government views the immigration level as too high.

## 8 ETHNIC GROUPS

Following the 16th-century Turkish conquest, Cyprus received a substantial permanent influx of Ottoman Turks. Many soldiers became owners of feudal estates, and there was immigration from Anatolia and Rumelia. There was virtually no intermarriage; each community preserved its own religion, language, dress, and other national characteristics, and major cities and towns had their Greek and Turkish quarters. The 1974 war had the effect of almost completely segregating the two communities.

Estimates in 2000 indicate that about 85% of the population are Greek and about 12% are Turkish. The remainder of the population includes Lebanese Maronites, Armenians, British, and others.

## 9 LANGUAGES

After independence in 1960, Greek and Turkish became the official languages. Since 1974, Greek has been the language of the south and Turkish the language of the north. English is also used extensively.

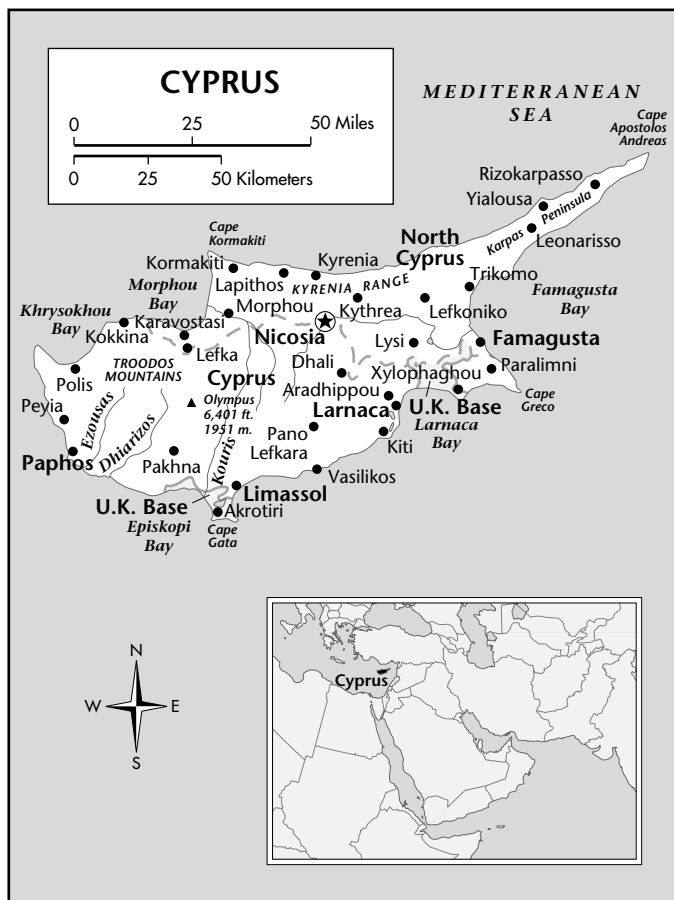
## 10 RELIGIONS

In a 2002 report, about 96% of the government-controlled area of Cyprus was Greek Orthodox. Nearly 99% of the Turkish Cypriots are Muslim. Other faiths include Maronite, Armenian Orthodox, Roman Catholic, and Protestants. Religion holds a significantly more prominent place in Greek Cypriot society than in Turkish Cypriot society, with correspondingly greater cultural and political influence. Under the Cyprus ethnarch Archbishop Makarios III, who was president of Cyprus from 1960 until his death in 1977, the church was the chief instrument of Greek Cypriot nationalism. Makarios' successor as ethnarch, Archbishop Chrysostomos, elected for life, also has played an active role in Greek Cypriot political affairs.

The independence of the Church of Cyprus was recognized by the Council of Ephesus in AD 431 and confirmed by Emperor Zeno in 478. The Church of Cyprus is one of the oldest constituent bodies of the Holy Orthodox Eastern Church, being senior by centuries to the Orthodox Church of Greece, and junior only to the four original patriarchates of Constantinople, Alexandria, Antioch, and Jerusalem. Virtually all Turkish Cypriots are Sunni Muslims of the Hanafi sect.

## 11 TRANSPORTATION

Internal transport is exclusively by road. In 2002, there were 10,663 km (6,626 mi) of roads in the Greek area and 2,350 km (1,460 mi) of roads in the Turkish area. In the Turkish area, 1,370 km (851 mi) of the roads were paved, compared with 6,249 km (3,883 mi) in the Greek area. In addition to numerous taxicabs, the chief towns are served by private buses, whose services are regulated by the Road Motor Transport Board. In



LOCATION: 34°33' to 35°34' N; 32°16' to 34°37' E. TERRITORIAL SEA LIMIT: 12 miles.

2000 there were 257,100 licensed private motor cars and 123,300 commercial vehicles.

Although off the main world shipping routes, Cyprus is served by passenger and cargo shipping lines. Famagusta on the east coast was the main port, but it and the ports of Kyrenia and Karavostasi were closed to national shipping after the Turkish invasion in 1974. (The port of Famagusta was reopened by the Turkish Cypriots in 1978.) The Limassol and Larnaca ports have been modernized and are now considered good deepwater harbors. Other ports include Moni, Vasiliko-Ziyyi, and Paphos. In 2002, 1,254 ships totaling 22,802,712 GRT comprised the merchant fleet, one of the world's leaders in terms of deadweight tonnage, at 36,337,768 . About two-thirds of the trade passed through Limassol. There are no inland waterways.

There were 15 airports in 2001, of which 13 had paved runways. The civil airport at Nicosia was used by many international airlines until the 1974 war, after which nearly all flights were diverted to the new international airport built at Larnaca. In 1983, a new international airport opened in Paphos. In 2001, 1,503,400 passengers were carried on scheduled domestic and international flights. Cyprus Airways has services to Middle Eastern countries, but there is no regular internal air service.

## 12 HISTORY

Numerous Stone Age settlements excavated in Cyprus indicate that as early as 4000 BC a distinctive civilization existed on the island. Living in circular huts, this Neolithic people produced decorated pottery of great individuality, and used vessels and tools ground from the close-grained rocks of the Troodos Mountains. Cyprus was famous in the ancient world for its

copper, which, from about 2200 BC, was used throughout the Aegean in the making of bronze. The island is believed either to have derived its name from or to have given it to this mineral through the Greek word *kypros*—copper. Although celebrated also for its cult of Aphrodite, Cyprus was at first only a far outpost of the Hellenic world. Greek colonizers came there in sizable numbers in 1400 BC, and were followed soon afterward by Phoenician settlers. About 560 BC, Cyprus was conquered by Egypt. Coveted by each rising civilization, it was taken in turn by Persia, Alexander the Great, Egypt again, Rome, and the Byzantine Empire. Its Christian history began with the visits of Paul, accompanied first (as described in the Acts of the Apostles) by Barnabas, and later by the apostle Mark. For several centuries after AD 632, Cyprus underwent a series of Arab invasions. The island was wrested from its Byzantine ruler Isaac Comnenus in 1191 by Richard I (the Lion-Hearted) during the Third Crusade. Sold by the English king to the Knights Templar, it was transferred by that order to Guy de Lusignan, under whose dynasty the island experienced a brilliant period in its history, lasting some 300 years. Conquered in 1489 by Venice, Cyprus fell to the Turks in 1571.

The administration of Cyprus by the United Kingdom began in 1878 at a convention with Turkey initiated by the British prime minister, Benjamin Disraeli, at the Congress of Berlin. He sought to establish Cyprus as a defensive base against further Russian aggression in the Middle East. Upon the entry of Turkey into World War I, Cyprus was annexed to the British crown. It was declared a crown colony and placed under a governor in 1925.

For centuries, under Ottoman and British rule, Greek Cypriots had regarded Greece as their mother country and had sought union (*enosis*) with it as Greek nationals. In 1931, enosis agitation, long held in check, broke into violence. The Government House was burned amid widespread disturbances, and the British colonial administration applied severe repressive measures, including the deportation of clerical leaders. Agitation was dormant until the close of World War II, when it recommenced, and demands that the United Kingdom cede the island to Greece were renewed. The National Organization of Cypriot Fighters, led by Col. George Grivas, a retired Greek army officer, began a campaign of terrorism in 1955; upward of 2,000 casualties were recorded. The unity of NATO was endangered by the opposing positions taken on the Cyprus question by Greece and Turkey, but efforts by NATO members to mediate the dispute proved unsuccessful.

Against this background, the prime ministers of Greece and Turkey met in Zürich, Switzerland, early in 1959 in a further attempt to reach a settlement. Unexpectedly, the Greek Cypriots set aside their demands for enosis and accepted instead proposals for an independent republic, with representation of both the Greek and Turkish Cypriot communities guaranteed. A formula for the island's future, approved by the governments of the United Kingdom, Greece, and Turkey, also received the blessing of the Cyprus ethnarch, Archbishop Makarios III, who returned in triumph to the island from which he had been deported by the British government on charges of complicity with terrorism.

Besides determining Cyprus' legislative institutions, the Zürich settlement provided for a number of instruments defining the island's future international status. Enclaves on Cyprus were set aside for the continuation of British military installations in an effort to restore constitutional order. The United Kingdom, Greece, and Turkey, the guarantor powers, had the right to act together or singly to prevent either enosis or partition. In addition, provision was made for Greek, Turkish, and Cypriot forces to be stationed together at a tripartite headquarters. By 1 July 1960, agreement was reached on all outstanding differences, and independence was officially declared on 16 August.

From the outset, the two Cypriot communities differed on how the Zürich settlement would be implemented, and how much

autonomy the Turkish minority would enjoy. In December 1963, Turkish Cypriots, protesting a proposed constitutional change that would have strengthened the political power of the Greek Cypriot majority, clashed with Greek Cypriots and police. When fighting continued, the Cyprus government appealed to the UN Security Council. On 4 March 1964, the Security Council voted to send in troops. Turkey and Cyprus agreed on 10 August to accept a UN Security Council call for a cease-fire, but on 22 December, fighting again erupted in Nicosia and spread to other parts of the island. The UN General Assembly passed a resolution in December 1965 calling on all states to “respect the sovereignty, unity, independence, and territorial integrity of the Republic of Cyprus, and to refrain from any intervention directed against it.” The General Assembly requested the Security Council to continue UN mediation.

Violent clashes between Greek and Turkish Cypriots nearly precipitated war between Greece and Turkey in 1967, but the situation was stabilized by mutual reduction of their armed contingents on Cyprus. By January 1970, the UN peacekeeping force numbered some 3,500 troops; both Greek Cypriot National Guard and Turkish Cypriot militia also maintained sizable national guards of their own. Although talks continued between the two communities, no agreement was reached on the two basic points of dispute. Politically, the Turks wanted full autonomy, while the Greeks demanded continued unitary majority rule. Territorially, the Turks wanted Cyprus divided into Greek and Turkish-controlled zones, a position that was likewise at odds with the Greek Cypriot concept of a unitary state.

Meanwhile, tensions had developed between Makarios, who continued to oppose enosis, and the remnants of the military junta that had ruled Greece since 1967. On 2 July 1974, Makarios accused the Greek government of seeking his overthrow and called for the immediate withdrawal of 650 Greek officers in the Cypriot National Guard. Less than two weeks later, the National Guard toppled the Makarios government, forcing the Archbishop into exile and installing Nikos Sampson as president. To counter the threat of Greek control over Cyprus, Turkish Cypriot leaders asked Turkey to intervene militarily. Turkish troops landed on 20 July, but within two days the UN force had been augmented and a UN Security Council cease-fire resolution had taken effect. The coup failed, Sampson resigned on 23 July, and Glafkos Clerides became acting president in accordance with the Cyprus constitution. However, Turkey did not withdraw its forces, and while peace talks were conducted in Geneva, the Turkish military buildup continued. When talks broke down, a full-scale Turkish offensive began, and by mid-August, when a second cease-fire was accepted, Turkish forces controlled about 38% of the island. Makarios returned to Cyprus and resumed the presidency in December. On 13 February 1975, in an action considered illegal by the Cyprus government, the Turkish-held area proclaimed itself the Turkish Cypriot Federated State; Rauf Denktash, a former vice president of Cyprus and the president of the interim Autonomous Turkish Cypriot Administration (formed after the 1967 crisis), became president. A Security Council resolution on 12 March regretted the proclamation of the new state and called for the resumption of intercommunal talks. The government of the Republic of Cyprus continued to be recognized as the legally constituted authority by the UN and by all countries except Turkey, although its effective power extended only to the area under Greek Cypriot control.

After the de facto partition, Greek and Turkish Cypriot leaders met several times under UN auspices to explore a possible solution to the Cyprus problem. President Makarios conferred with Denktash in Nicosia early in 1977. When Makarios died of a heart attack on 3 August, Spyros Kyprianou became president, and he also held talks with Denktash in May 1979. Further negotiations between leaders of the two communities were held in August 1980, but again no agreement was reached. In February

1982, Greek Premier Andreas Papandreu visited Nicosia, where he pledged to argue the Greek Cypriot cause before the UN, the EC, and the Council of Europe; three months later, in May, the Turkish prime minister paid an official visit to northern Cyprus, drawing protests from the governments of both Greece and the Republic of Cyprus. On 15 November 1983, the Turkish sector proclaimed itself an independent state, the Turkish Republic of Northern Cyprus (TRNC). Denktash was named president, but only Turkey recognizes the TRNC. The UN, which condemned the TRNC's declaration of independence, tried repeatedly to end the partition between north and south, but all proposals were rejected by both parts. The major stumbling block was the south's demand that the estimated 25,000 Turkish troops in the north be withdrawn before negotiations began and the north's refusal to remove the troops before a final solution was reached. In February 1988, George Vassiliou was elected president of Cyprus, and he stated that he would call for reunification talks with the Turkish Cypriots.

Talks between him and Turkish Cypriot President Denktash, who was reelected in 1990, have taken place at intervals since 1988. In 1991, the UN Security Council called on both sides to complete an overall framework agreement. Despite speculation in 1994 that UN peacekeeping forces might be withdrawn if some progress was not registered, the mandate was renewed. In 1993 voting, Glafkos Clerides, a conservative, replaced right-wing George Vassiliou as president. Clerides won reelection to a second five-year term in 1998.

August of 1996 saw the most violent border clashes since the 1974 partition. In the space of one week, protestors broke through Greek-Cypriot security lines and clashed with Turkish-Cypriot and Turkish military forces in the buffer zone lying between the two divided parts of the island. Two Greek-Cypriots were killed and over 50 were injured by the Turkish military. The killing of the protestors, who were unarmed, brought general expressions of condemnation from the West but was supported by the Turkish government as acts of self-defense.

While they have not yet led to violence, there have been choleric clashes between Greek and Turkish Cypriot leaders over Cyprus' proposed entrance into the EU. The EU invited Cyprus to be one of ten nations to join the EU in the next round of the Union's enlargement, to take place in May 2004. Having declared that it would prefer a united Cyprus to join, the EU stipulated that if a settlement to the issue of unification was not reached before entry negotiations were scheduled to begin, then the negotiations would be begun with the Greek-Cypriot Republic of Cyprus. Both the government of Turkey and Turkish-Cypriot leaders vociferously denounced such a plan. In November 2001, Turkey threatened to annex the northern part of the island if the Greek-Cypriot Republic of Cyprus joined the EU before a settlement was reached. In December 2002, the EU's formal invitation to Cyprus to join the Union stipulated that by 28 February 2003, the two communities agree to a UN peace plan for reunification outlined by UN Secretary General Kofi Annan in November 2002. Without reunification, only the Greek Cypriot part of the island would gain membership.

Further complicating the relationship between the Northern and Southern parts of the island was the proposed sale to the Republic of Cyprus by Russia of sophisticated anti-aircraft missiles to be stationed at a newly constructed Greek air force base in Paphos. The proposed sale brought threats of invasion from the Turkish government. In January 1999, Greek Cypriots reversed their decision to install the missiles in Cyprus and agreed to station them on the Greek island of Crete instead. Tensions were eased further by the resumption of proximity talks on the reunification of the island. Under this format, Clerides and Denktash met separately with UN Secretary General Kofi Annan in New York in December 1999 and in Geneva in January-February 2000. A chief stumbling block in the discussions was

the Turkish Cypriot demand that a reunified Cyprus be a confederation, while the Greek Cypriots favor a federation. UN-sponsored negotiations between Clerides and Denktash took place again in January 2002. In November, Annan presented a comprehensive peace plan for Cyprus, envisaging a Swiss-style confederation of two equal component states, presided over by a rotating presidency. The plan would have required a referendum on both sides of the island to go into effect.

In late 2002 and early 2003, thousands of Turkish Cypriots held rallies to call for the island's reunification and Denktash's resignation. Denktash was accused of blocking progress on the November 2002 UN peace plan. In January 2003, Recep Tayyip Erdogan, the head of Turkey's governing party, the Justice and Development Party, criticized Denktash for the same reason. Denktash threatened to stand down as leader rather than sign the UN plan. Talks on Annan's reunification plan broke down on 11 March 2003, and Annan declared the island's two communities might not get a similar chance for peace for years. The Republic of Cyprus, remaining divided, signed the Accession Treaty for the EU on 16 April 2003, and is to join that body in May 2004.

Contributing to the failed peace negotiations was the election of hard-line nationalist Tassos Papadopoulos as president of Cyprus on 16 February 2003. In a surprise first-round win, Papadopoulos soundly defeated Clerides, with 51.5% of the vote to 38.8. Papadopoulos seeks the right of return of all Greek Cypriot refugees to the Turkish northern section of the island.

### 13 GOVERNMENT

The 1960 constitution of the Republic of Cyprus respects the two existing ethnic communities, Greek and Turkish, by providing specifically for representation from each community in the government. The president must be Greek and the vice president Turkish. Under the constitution, these officers are elected for five years by universal suffrage by the Greek and Turkish communities, respectively; each has the right of veto over legislation and over certain decisions of the Council of Ministers. (The Council of Ministers is made up of seven Greek and three Turkish ministers, designated by the president and vice president jointly.) Legislative authority (as of 20 June 1985) is vested in the 80-member House of Representatives, elected by the two chief communities in the proportion of 56 Greek and 24 Turkish. In January 1964, following the outbreak of fighting, Turkish representatives withdrew from the House, and temporary constitutional provisions for administering the country were put into effect.

Archbishop Makarios, who became president of Cyprus in 1960, was reelected in 1968 and 1973. Following his death in 1977, the leader of the House of Representatives, Spyros Kyprianou, became president; he was elected to two five-year terms in 1978 and 1983. (George Vassiliou, an independent, succeeded him in 1988; Glafcos Clerides was elected in 1993 and reelected in 1998. Tassos Papadopoulos was elected president in 2003). Rauf Denktash was elected vice president in 1973, but the post has remained effectively vacant since the 1974 war, in the absence of Turkish participation. Denktash has been president of the Turkish area since 1975.

On 13 February 1975, subsequent to the Turkish invasion of Cyprus, the Turkish Cypriot Federated State (TCFS) was proclaimed in the northern part of the island, and Denktash became its president. A draft constitution, approved by the state's Constituent Assembly on 25 April, was ratified by the Turkish Cypriot community in a referendum on 8 June. Establishment of the TCFS was described by Denktash as "not a unilateral declaration of independence" but a preparation for the establishment of a federal system. Denktash was elected president of the TCFS in 1976 and again in 1981; elections to a unicameral legislature of 40 seats were held those same years. On 15 November 1983, the TCFS proclaimed itself the Turkish Republic

of Northern Cyprus (TRNC), separate and independent from the Republic of Cyprus. In June 1985, TRNC voters approved a new constitution that embodied most of the old constitution's articles. The new constitution, however, increased the size of the Legislative Assembly to 50 seats. In elections held in June 1985, Rauf Denktash won reelection to a five-year term as president with more than 70% of the vote. Denktash has since been reelected in 1990, 1995, and 2000.

### 14 POLITICAL PARTIES

The four principal political parties of the Greek community in 2001 were the Progressive Party of the Working People (Anorthotikon Komma Ergazomenou Laou—AKEL), a pro-Communist group; the right-wing Democratic Rally (Demokratikos Synagermos—DISY); the center-right Democratic Party (Demokratiko Komma—DIKO); and the Socialist Party, or Social Democrats Movement (Kinima Sosialdimokraton—KISOS, formerly Eniea Demokratiki Enosi Kyprou or EDEK). Party representation in the House and percentages of the popular vote won by the parties in the elections of 27 May 2001 were AKEL, 20 seats (34.7%); DISY, 19 seats (34%); DIKO, 9 seats (14.8%); KISOS, 4 seats (6.5%); and other parties, 4 seats (9.9%). The Orthodox Church of Cyprus also exercises substantial political influence.

The Turkish Republic of Northern Cyprus held elections for a 50-seat Legislative Assembly on 6 December 1998. The right-wing National Unity Party won 24 seats (40.3% of the vote); the Democratic Party, 13 seats (22.6%); the Communal Liberation Party, 7 seats (15.4%), and the Republican Turkish Party, 6 seats (13.4%). Other minor parties won the remaining 8.3% of the popular vote.

### 15 LOCAL GOVERNMENT

Elected municipal corporations function in the chief towns and larger villages. The smaller villages are managed by commissions comprising a headman (*mukhtar*) and elders (*azas*). Voluntary district committees are responsible for activities outside the scope of the major government development projects. There are six administrative districts for the island: Famagusta, Kyrenia, Larnaca, Limassol, Nicosia, and Paphos. The Turkish Cypriot area's administrative divisions include Kyrenia, all but a small part of Famagusta, and small parts of Nicosia and Larnaca.

The 1960 constitution provided for two communal chambers, these bodies having wide authority within the two main ethnic groups, including the power to draft laws, impose taxes, and determine all religious, educational, and cultural questions. The Greek Communal Chamber, however, was abolished in 1965, and its functions reverted to the Ministry of Education (later renamed the Ministry of Education and Culture). The Turkish Communal Chamber embraces municipalities that are exclusively Turkish. Originally the duties of the Turkish Communal Chamber were to supervise Turkish cooperatives, sports organizations, and charitable institutions. But since the late 1960s, the Turkish communities have maintained strict administrative control of their own areas and have insisted on civil autonomy.

### 16 JUDICIAL SYSTEM

In the Greek Cypriot area, the Supreme Court is the final appellate court and has final authority in constitutional and administrative cases. It deals with appeals from assize and district courts, as well as from decisions by its own judges, acting singly in certain matters. There are six district courts and six assize courts. The Supreme Council of Judicature appoints judges to the district and assize courts.

In the Turkish-held area, a Supreme Court acts as final appellate court, with powers similar to those of the Supreme Court in the Greek Cypriot area. In addition to district and assize

courts, there are two Turkish communal courts as well as a communal appeals court.

The Cypriot legal system incorporates a number of elements of the British tradition including the presumption of innocence, due process protections, and the right to appeal. Both parts of Cyprus provide for fair public trials. Both in theory and in practice, the judiciary is independent of executive or military control.

## 17 ARMED FORCES

Under the Zürich agreement, Cyprus was to have an army of 2,000 men, of whom 60% were to be Greek and 40% Turkish. Subsequently, the government passed a military conscription law, enlisting men between the ages of 19 and 26 for 26 months of service. The Cypriot national guard comprised 10,000 personnel in 2002, backed by 60,000 reservists in all services. A paramilitary force of 750 men provides police services. About 1,250 troops and advisors from Greece were stationed in the south in 1999. Military spending in 2000 amounted to \$370 million or 4.2% of GDP.

## 18 INTERNATIONAL COOPERATION

Cyprus was admitted to UN membership on 20 September 1960 and is a member of ECE and all the nonregional specialized agencies. Cyprus is also a member of the Commonwealth of Nations, Council of Europe, G-77, and the WTO, as well as a signatory to the Law of the Sea. A cooperation agreement between Cyprus and the EU became effective in June 1973, and an application for membership was pending as of 2003.

## 19 ECONOMY

Historically an agricultural country with few natural resources, Cyprus has been shifting from subsistence farming to light manufacturing, and a service dominated economy. Farm mechanization has reached an advanced state, and a hopefully long-lasting solution to an erratic water supply has been achieved with the completion of a second desalination plant in 2001 that has allowed the lifting of restrictions on water usage. Large trade deficits have been partially offset by tourism and remittances from Cypriots working abroad. The Greek Cypriot economy has established itself as a business and service center for enterprises engaged in shipping, banking, and commerce. Cyprus is now classified by the World Bank as a high-income country and is on track for accession to the EU in 2004, though it is unclear what relationship it will have with the Turkish-occupied north which lags behind economically. Also Turkey has made clear its opposition to the EU's inclusion of Cyprus before its inclusion of Turkey.

The 1974 coup and the Turkish armed intervention badly disrupted the economy. Physical destruction and the displacement of about a third of the population reduced the output of the manufacturing, agricultural, and service sectors. The lands occupied by Turkish forces accounted for about 70% of the country's prewar economic output. In general, the Greek Cypriot zone recovered much more quickly and successfully than the Turkish-held region, which was burdened with the weaknesses of Turkey's economy as well as its own. Scarcity of capital and skilled labor, the lack of trade and diplomatic ties to the outside world, and the consequent shortage of development aid have aggravated the problems of northern Cyprus. In the south, on the other hand, tourism has exceeded prewar levels, foreign assistance has been readily available, and the business community has benefited from the transfer to Cyprus of the Middle Eastern operations of multinational firms driven from Beirut by the Lebanese civil war.

The Republic of Cyprus saw strong economic growth throughout the 1990s. In 1992, the economy grew by over 8%. In 1995 and 1996, growth was more modest, but still robust, registering 6.6% in 1996, a level not since attained. Growth

slumped in 1997 to 3%, which was followed by three years of recovery, with growth rates of 5%, 4.5% and 5.1% 1998 to 2000. The global slowdown of 2001 impacted Cyprus' vulnerable economy, which posted a 2.6% decline. Although growth returned in 2002, it was at an anemic 2% level due mainly to the sharp decline in tourism following the 11 September 2001 terrorist attacks on the United States. Barring serious disruptions, which are not, unfortunately all that unlikely as consequences of the confrontation with Iraq, the IMF has predicted that growth will return to 3% in 2003. Inflation and unemployment have continued at low levels. From 1992 to 2001, the weighted annual rate of inflation was 2.48%, and had fallen to 1.9% (consumer prices) in 2001, according to CIA estimates. The unemployment level was averaging below 2% before 1996, and since has averaged a little over 3%. Unemployment was at 3% in 2001, and is estimated at 3% for 2002, according to official government statistics.

In the North, however, the economy has continued to grow more slowly, at less than 1% a year accompanied by persistently high inflation. In 1995, growth was estimated at 0.5% and inflation at 215%. In 2000, according to CIA estimates, growth was .8% and inflation, based on consumer prices, was 53.2%. Unemployment in the Turkish-held north, estimated at 1.5% in 1995, was at an estimated 5.6% in 1999, the latest available year. Nominal per capita income in the south is about three times that of the north, although in purchasing power parity (PPP) terms, as estimated by the CIA, the difference is somewhat narrower.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the Greek Cypriot area's gross domestic product (GDP) was estimated at \$9.1 billion and the Turkish Cypriot area's GDP was estimated at \$1.1 billion. The per capita GDP was estimated at \$15,000 in the Greek Cypriot area in 2001 and at \$7,000 in the Turkish Cypriot area in 2000. The annual growth rate of GDP was estimated at 2.6% in the Greek Cypriot area in 2001, and at 0.8% in the Turkish Cypriot area in 2000. 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 4.6% of GDP, industry 19.9%, and services 75.5% in the Greek Cypriot area in 2001; agriculture accounted for 8.3% of GDP, industry 20.7% and services 71% in the Turkish Cypriot area in 2000. Foreign aid receipts amounted to about \$65 per capita and accounted for approximately 1% of the gross national income (GNI).

## 21 LABOR

In 2000, the economically active population totaled 291,000 in the Greek Cypriot area and 86,300 in the Turkish Cypriot area. Of total employees in the Greek Cypriot area in 2000, 73% were employed in services, 22% in industry, and 5% in agriculture. In the Turkish Cypriot area, the breakdown was services 56%, industry 23%, and agriculture 21%. The unemployment rate in the Greek Cypriot area was 3% in 1999, while in the Turkish area it amounted to 5.6%.

Trade unions, legalized in 1937, represent employees in agriculture, forestry, fishing, mining, quarrying, building construction, utilities, governmental services, trade, and general labor. Registration of trade unions is compulsory, but membership in a union is not. Most labor disputes are resolved by government mediation. Workers of the Turkish community have their own labor organizations: the Turkish Cypriot Trade Union Federation and the Revolutionary Trade Unions Federation. More than 70% of the Greek Cypriot workforce belonged to a union in 2002. Approximately 50 to 60% of the

Turkish Cypriot workforce in the private sector is unionized, and all of the public sector employees are union members.

There is a legislated minimum wage in the Greek Cypriot community; because of inflation this figure is adjusted twice yearly. In 2002 it was \$420 per month for many occupations, rising to \$450 per month after six months employment. In the same year, the Turkish Cypriot minimum wage was approximately \$170 per month. These wages are insufficient to support a wage earner and family, but most workers earn significantly more than this. The minimum working age in both communities is 16, with apprentice programs allowing 15 year olds to work in the Turkish Cypriot community. In the government controlled areas the legal workweek is 39 hours for white-collar workers and 38 hours for blue-collar workers, with fewer hours in the summer months. In the Turkish Cypriot community the workweek is 38 hours in the winter and 36 hours in the summer. Health and safety standards in the workplace continue to improve.

## 22 AGRICULTURE

Agricultural methods are adapted to the island's hot and dry summers and generally limited water supply. Spring and early summer growth is dependent on moisture stored in the soil from the winter rains, but summer cultivation is dependent on irrigation. About 15.3% of the total land area is arable.

Most farmers raise a variety of subsistence crops, ranging from grains and vegetables to fruits. Since 1960 there has been increased production of citrus fruits and potatoes. These two commodities, along with grapes, kiwi, and avocados are grown both for the domestic market and as exports to EU nations. Principal crops in 1999 (in tons) included barley, 119,000; potatoes, 170,000; grapes, 115,000; grapefruit, 33,000; oranges, 43,000; lemons, 19,000, and wheat, 14,000. Tomatoes, carrots, olives, and other fruits and vegetables are also grown. The areas that have been Turkish-held since 1974 include much of Cyprus' most fertile land; citrus fruits are a major export. Citrus production in 1999 reflected a decline since 1992 because of continued dry weather.

The Agricultural Research Institute, through experiments with solar-heated greenhouses, soil fertility, water usage optimization, and introduction of new varieties of grain, attempts to improve the efficiency of Cypriot agriculture. Agricultural products accounted for 41% of exports in 2001.

## 23 ANIMAL HUSBANDRY

Grazing land for livestock covers about 1,100 ha (2,700 acres). Animal husbandry contributes about one-third of total agricultural production. Output of pork, poultry, and eggs meets domestic demand, but beef and mutton are imported. Sheep and goats, which feed upon rough grazing land unsuitable for cultivation, provide most of the milk products. In 2001, sheep numbered about 246,000, hogs 413,800, and goats 378,600.

Indigenous cattle, kept primarily as draft animals, are decreasing with the advance of farm mechanization. There is no indigenous breed of dairy cattle, but near main towns, dairy stock, mostly shorthorns, are kept under stall-fed conditions, and Friesian cattle have been imported from the Netherlands and the United Kingdom. Cattle numbered about 54,200 in 2001.

Livestock products in 2001 included 50,700 tons of pork, 34,000 tons of poultry meat, 141,500 tons of milk, and 11,000 tons of eggs.

## 24 FISHING

Year-round fishing is carried on mostly in coastal waters not more than 3.2 km (two mi) from shore. The fish in Cyprus waters are small from the lack of nutrient salts, and the catches are meager. The 2000 catch was 2,308 tons. Fish exports in 2000 were valued at \$6.4 million. There is no deep-sea fishing. Sponges

of good quality are taken, mostly by licensed fishermen from the Greek Dodecanese Islands.

## 25 FORESTRY

About 172,000 ha (425,000 acres) are forested; 137,800 ha (340,500 acres) are reserves managed by the Forest Department, the remainder being natural growths of poor scrub used by village communities as fuel and as grazing grounds. Besides furnishing commercial timber, the forests provide protective cover for water catchment areas and prevent soil erosion. Their value is also scenic, numerous holiday resorts being situated in the forest reserves. Most numerous by far among forest trees is the Aleppo pine. The stone pine is found on the highest slopes of the Troodos Massif; the cedar, once a flourishing tree, has become a rarity. In the lowlands, eucalyptus and other exotic hardwoods have been introduced. Other important local species include cypress, plane, alder, and golden oak. The demand for timber during World War I resulted in some overcutting, and in 1956 large fires further reduced forests, particularly in Paphos, where 211,000 cu m (6 million cu ft) of standing timber were destroyed. To offset these losses, all felling of fresh trees for timber was stopped and systematic reforestation begun. The timber cut decreased from 152,415 cu m (5.4 million cu ft) in 1977 to 14,374 cu m (50.1 million cu ft) in 2001 (88% coniferous). Most of Cyprus' timber requirements must be met by imports. In 2000, imports of forestry products exceeded exports by \$35 million.

## 26 MINING

In 2001, the mineral industry of Cyprus was dominated by the production of bentonite, cement, copper, and refined petroleum products. Mineral production reached a peak in 1960, when minerals formed 58% of total exports; in 2001, they represented 5% of exports. The decline was attributed to depletion of minerals and unfavorable marketing conditions abroad. The place of mining in the GDP similarly declined from 16.7% in 1952 to 0.3% by 1994. In recent years, production of Cyprus' historically important export minerals—*asbestos*, *celestite*, *chromite*, *copper*, and *iron pyrite*—has stopped. Cyprus was a significant source of the mineral pigments *umber* and *yellow ochre*, which, along with *gypsum*, were produced for export in 2001. Ownership and control of minerals and quarry materials were vested in the government, which may grant prospecting permits, mining leases, and quarrying licenses. Royalties on extracted mineral commodities ranged from 1% to 5%.

Hydraulic cement, a leading export commodity, accounted for half of the country's mining and quarrying production. Production figures for 2001 included: 1.37 million tons of cement (910,000 in 1997), 126,600 tons of bentonite (70,660 in 1996), 9.3 million tons of sand and gravel (6 million in 1996), 850,936 tons of high-grade copper ore (0.60% Cu), 863,716 tons of low-grade copper ore (0.29% Cu), 250,000 tons of crude gypsum (181,546 in 1999), 7,800 tons of umber (9,169 in 1999, 4,604 in 1996), 1.78 million tons of marl (for cement production), and 1.5 million tons of crushed limestone (Havara). Other mine and quarry products for 2001 were crushed aggregate, common clays, calcined gypsum, hydrated lime, marble, the mineral pigments *ocher* and *terra verte*, building stone, and sulfur.

## 27 ENERGY AND POWER

The principal source of power is steam-generated electricity, which is distributed by the Electricity Authority of Cyprus (EAC) from three generating stations at Dhekelia and Momi. In 2001 these plants had an installed capacity of 737,000 kW. Total generation has risen from 12 million kWh in 1952 to 3.13 billion kWh in 1999, of which 100% was from fossil fuels. Consumption of electricity was 2.9 billion kWh in 1999. The grid system includes all towns and most villages. The south provides

the Turkish sector with all of its electricity, although the EAC is prevented from collecting revenue from the Turkish sector.

## 28 INDUSTRY

Industries are numerous and small in scale, 95% of them employing fewer than 10 workers. Working owners make up a large part of the industrial labor force. Manufacturing, which accounts for about 10.6% of GDP, and employs 9.1% of the labor force, is dominated by small enterprises. The manufacturing sector of industrial production has declined in absolute value over 10% from its peak in 1992, reflecting declines in the traditional leaders, textiles and food processing. Textiles, the leading manufacturing industry since 1974, has declined in output value about 50% since a peak reached in 1988, whereas food processing (food, beverages and cigarettes) has declined about 15% from a peak reached in 1992. The manufacture of non-metallic mineral products has also declined, about 7% from peak levels in 1994–95. Growth has occurred among nontraditional manufactures in the areas of chemicals, petroleum, rubber and plastics, up over 25% in the decade. Other industrial sectors have increased strongly: mining and quarrying is up nearly 60% since 1990 and the production of electricity, gas, and water treatment, increased nearly 80%. According to CIA estimates, overall industrial production grew 2.2% in 1999 in the Greek Cypriot area, but was declined an estimated .3% in the Turkish area. The leading products are textiles, shoes, cement mosaic tiles and cigarettes. Major plants include modern flour mills, tire-treading factories, knitting mills, preprocessing facilities, and a petroleum refinery. Furniture and carts are also manufactured. Nine industrial estates have been established. In both the Greek and Turkish areas of Cyprus, industry accounts for about 20% of GDP and employs about 22% of the labor force.

## 29 SCIENCE AND TECHNOLOGY

The Cyprus Research Center promotes research principally in the social sciences and in history, ethnography, and philology. In addition, Cyprus has three universities and several colleges offering degrees in basic and applied sciences. In the mid-1990s total expenditures for research and development amounted to 5.6 million Cyprus pounds per year; 165 technicians and 147 scientists and engineers were engaged in research and development.

## 30 DOMESTIC TRADE

A flourishing cooperative movement provides facilities for marketing agricultural products. There are more than 500 Greek cooperative societies, with some 100,000 members. Many towns and villages have cooperative stores; the towns also have small independent shops, general stores, and bazaars. The nation is not self-sufficient and relies on imports for a number of food products and consumer goods. Since 1990, at least 12 US franchises have been established throughout the country.

Government price controls have been virtually eliminated as the nation has realigned its economic policies to be acceptable to the European Union. The result has been a more open market with greater competition.

Business hours are from 8 AM to 1 PM, and 2:30 to 5:30 PM in the winter and from 7:30AM to 1 PM and 4 to 6:30 PM in the summer. Shops are open only in the morning on Wednesday and Saturday. Normal banking hours are from 8:30 AM to noon, Monday–Saturday. Advertising is mainly through newspapers and television. Direct marketing/telemarketing has also been used.

As a result of the island's division in 1974, there is no trade between the two communities across the UN buffer zone.

## 31 FOREIGN TRADE

With limited natural resources, Cyprus is dependent on other countries for many of its needs. Other than some agricultural commodities, it has few surpluses, and the balance of trade has steadily grown more unfavorable.

The tobacco industry in Cyprus provides the export market with the largest portion of revenues (30%), while medicinal and pharmaceutical products take care of another large proportion (11%). Other exports include passenger motor vehicles (6.3%), vegetables (5.7%), apparel (4.5%), and fruit (2.5%).

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

Consumer goods	29.7%
Food	8.3%
Fuels	12.6%
Industrial supplies	20.3%
Machinery	15.6%
Transportation	12.1%
Other	1.4%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Kingdom	159	408	-249
Greece	78	330	-252
Russia	76	158	-82
Syria	63	118	-55
Germany	29	269	-240
United States	22	399	-377
Israel	19	156	-137
Spain	15	127	-112
Italy	10	340	-330
Japan	n.a.	223	n.a.

Lack of international recognition for the Turkish Cypriots severely hampers their foreign trade. Because of the Greek Cypriot economic boycott, all goods originating in northern Cyprus must transit through Turkey, thereby adding to shipping costs. Moreover, a 1994 ruling by the European Court of Justice declared that phyto-sanitary certificates issued by the "Turkish Republic of Northern Cyprus" were invalid due to the "illegality" of the entity.

## 32 BALANCE OF PAYMENTS

Since Cyprus has persistently imported more than it exports, it consistently runs a trade imbalance which has grown steadily over the past two decades. Cyprus' trade deficit has been somewhat offset by tourist dollars, spending by foreign military forces, and remittances from workers abroad.

The US Central Intelligence Agency (CIA) reports that the purchasing power parity of Greek Cypriot exports was \$851 million in 2001 (f.o.b.), and Turkish Cypriot exports totaled \$50.7 million, while Greek Cypriot imports totaled \$3.5 billion in 2001, and Turkish Cypriot imports totaled \$424.9 million, resulting in a trade deficit of \$2.6 billion for the Greek Cypriot portion of the island, and a \$374.2 million trade deficit for the Turkish Cypriot portion of the island.

The International Monetary Fund (IMF) reports that in 2001 Cyprus had exports of goods totaling \$977 million and imports totaling \$3.53 billion. The services credit totaled \$3.35 billion and debit \$1.19 billion. The following table summarizes Cyprus's balance of payments as reported by the IMF for 2001 in millions of US dollars.



<b>Current Account</b>	-395
Balance on goods	-2,550
Balance on services	2,168
Balance on income	-34
Current transfers	22
<b>Capital Account</b>	...
<b>Financial Account</b>	846
Direct investment abroad	-218
Direct investment in Cyprus	163
Portfolio investment assets	-443
Portfolio investment liabilities	524
Other investment assets	-541
Other investment liabilities	1,360
<b>Net Errors and Omissions</b>	161
<b>Reserves and Related Items</b>	-612

### 33 BANKING AND SECURITIES

In 1963, the Ottoman Bank (since renamed the Central Bank of Cyprus) was designated as the government's banking and currency clearing agent. The Banking law of 1997 provided for a properly-funded deposit insurance scheme and regulation were before the House of Representatives in late 1999. In general, banking services compare with the level experienced in European countries and the United States. There are six domestic banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$695.0 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$4.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.93%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5.5%.

The Cyprus Stock Exchange, which opened in March 1996, ended 1996 with gains of just 0.2%, but experienced an extended bull run starting in late November of 1998. Since 1996, foreign investors are no longer required to obtain the Central Bank's permission to invest in the CSE, although there are limits on foreign participation. Legislation passed in 1999 prohibited insider trading and a new screen-based automated trading system helped enhance investor confidence. The CSE index reached 162.8 by June 1999, up from its initial starting point of 100 in 1996. By mid 2003, however, it had dropped to around 84. Market capitalization is \$5.4 billion.

### 34 INSURANCE

Insurance companies, mostly British, make available life, fire, marine, accident, burglary, and other types of insurance. Auto collision insurance and workers' compensation are compulsory. At the beginning of the 1990s, more than 50 insurance companies operated in Cyprus. All insurance companies in Cyprus must be members of the Insurance Association of Cyprus, and foreign ownership is subject to government approval.

### 35 PUBLIC FINANCE

The fiscal year follows the calendar year. Import duties and income tax are the principal sources of government revenue. The principal ordinary expenditures are education, defense, and police and fire services. Due to the introduction of a value-added tax and a more efficient tax collection system, Cyprus made steady progress in reducing its budget deficit in the early 1990s, which reached 1% of GDP in 1995. The deficit, however, due in part to a slowing economy, is now again on the increase.

Turkish Cypriots use the Turkish lira for currency, and the Turkish government reportedly provides a large part of the TRNC annual budget.

The International Monetary Fund (IMF) estimates that in 1997 Cyprus's central government took in revenues of approximately

\$710.9 million and had expenditures of \$830.4 million including capital expenditures of \$83.2 million. Overall, the government registered a deficit of approximately \$120 million.

The following table shows an itemized breakdown of government revenues and expenditures in millions of US dollars. The percentages were calculated from data reported by the IMF.

<b>REVENUE AND GRANTS</b>	<b>100%</b>	<b>710</b>
Tax revenue	78.0%	554
Non-tax revenue	21.8%	155
Grants	0.1%	1
<b>EXPENDITURES</b>	<b>100%</b>	<b>830</b>
General public services	6.3%	53
Defense	3.8%	32
Public order and safety	5.6%	46
Education	11.9%	99
Health	6.3%	52
Social security	24.5%	203
Housing and community amenities	4.0%	34
Recreation, cultural, and religious affairs	1.7%	14
Economic affairs and services	12.9%	107
Other expenditures	0.6%	5
Interest payments	14.3%	119
Adjustments	7.9%	66

### 36 TAXATION

Income taxes were first introduced in 1941, and a system of withholding in 1953. The first value-added tax (VAT) was enacted in 1992. With an eye to its hoped-for accession to the EU in 2004, the Greek Cypriot government enacted a series of new tax laws in July 2002, effective as of 1 January 2003, designed to be fully compliant with OECD tax criteria and the EU tax Code of Conduct.

The new corporate income tax rate, applied to both local and international business companies (IBC's), is 10%. Active IBCs already operating from Cyprus may retain the previous ring-fence rate of 4.25% until 2005 if their income for the period 2001 through 2005 continues to come entirely from sources outside of Cyprus. If they opt to retain the 4.25% rate until 2005, they cannot carry forward any tax losses up to 2000 beyond 2005. Dividends paid to Cypriot tax residents are subject to a 15% withholding tax. A major feature of the new tax code is the integration of corporation and withholding taxes with income tax on distributed profits. The combination of the income tax and the withholding tax, assuming that 70% of the after-tax profits are distributed, produces a final tax rate of 19.45%, which is below the highest income tax rate of 25% before the reforms. Provisions for "special contributions to defense of the Republic" are changed under the new tax laws. The defense tax on interest income was raised from 3% to 10% except for recipients whose total income is less than €7,000 (about \$13,100), and except on interest from government bonds, pension funds, and deposits with the HFC, which are taxed at 3%. With some exceptions, the defense levy on dividends received was increased from 3% to 15%. Interest income is subject to a final 10% withholding tax. All interest earned by individuals and 50% of the interest earned by corporations are exempt from income tax.

Income taxation of companies will no longer depend on where they are registered but on where they are managed and controlled. Companies registered in Cyprus but managed and controlled from another country, will only be taxed in Cyprus on their Cyprus-source income. IBCs will not be entitled to benefits under double taxation treaties, but they will also not be subject to the exchange of information requirements of such treaties.

Under the new laws, expatriate employees pay personal income taxes at the same rates as Cypriot citizens, as well as

contribute to the Social Security Fund. For personal income tax rates, 2002 and 2003 are transitional years before the fully reformed schedule goes into effect in 2004. In 2001, for example, income up to C£6000 (\$11,221) was exempt from personal income tax; in 2002, the threshold was raised to C£9000 (\$16,800); in 2003, the threshold remained at C£9000 but with a reduction in the first marginal tax rate from 30% to 20%; and, finally, in 2004, the threshold will be raised to C£10,000 (\$18,700). Starting in 2004, personal income above C£10,000, will be taxed at marginal rates of 20%, 25% and 30%, applied, respectively, to bands C£10,001 to C£15,000 (\$28,050) and C£15,000 to 20,000 (\$37,400), and above C£20,000. The capital gains tax, its rate of 20% unchanged under the new laws, is imposed only on the disposal of property situated in the Republic. Indirect taxes include a value-added tax (VAT) whose rate was raised in two steps (from 10% to 13% as of 1 July 2002, and to 15% as of 1 January 2003), plus various excise taxes.

Duty free facilities for expatriates are scheduled to be withdrawn in April 2003.

### 37 CUSTOMS AND DUTIES

As of 1 January 1998, tariffs on many goods imported from the European Union fell to zero as Cyprus adopted the EU's common customs tariff on most products from third-party countries. In addition, Cyprus is a member of the World Trade Organization (WTO). The Republic of Cyprus also provides a 20% price preference on domestic goods and services for public tenders, although foreign pressure—the European Union and WTO forbid such practices—may halt this practice. A 15% VAT is also levied.

### 38 FOREIGN INVESTMENT

Because Turkish Cyprus is recognized as a sovereign nation by no other nation besides Turkey, it has attracted little foreign investment. The majority of factories are owned by domestic companies but, in most of the major industrial concerns, there has been considerable British and Greek capital. The central government encourages foreign investment that results in the import of new technology or new production methods and improves the quality of the goods produced, especially for export. Any purchase of shares in a domestic company by nonresidents requires approval by the Central Bank of Cyprus.

As part of its accession to the EU, expected in 2004 barring untoward events, Cyprus has endeavored to transform itself from an off-shore tax haven, featuring a 4.25% corporate tax rate for ring-fence businesses (that is, those having no trade inside Cyprus) to a what it calls a tax incentive country, free from the suspicion usually associated with tax havens. Under the new tax code effective as of effect 1 January 2003, foreign companies already enjoying the tax haven 4.25% (in 1996, for instance, there were some 1,168 offshore companies operating out of Cyprus) can continue to do so until the end of 2005, provided they have not trade inside Cyprus.

Other companies will receive for the most part national treatment, which features a competitive corporate tax rate, (of 19.45% instead of the highest income rate of 25% through the way the income and withholding taxes are combined) but not an offshore rate. In the accession process (or *acquis*), Cyprus has been under intense scrutiny for money laundering. Its anti-money laundering law of 1996 was amended in 1999 to satisfy enforcement concerns. As of 2002, both the IMF and the OECD's Financial Action Task Force on Money Laundering (the TATF) have certified Cyprus as satisfactory on this count.

Cyprus has not been removed, however, from the Flags of Convenience (FOC) black list of the Paris Memorandum of Understanding on Port State Control, known as the Paris MOU, which is an agreement among 19 countries aimed at eliminating substandard shipping. Historically, Cyprus has operated the fourth- or fifth-largest maritime fleet through offering lax safety

and inspection regimes on ships registered under its flag. From 1999 to 2001, there were signs of improvement, according to EU reports. The percent of Cyprus-flagged vessels detained by Port State control dropped from 9.97% in 1999 to 8.85% in 2001, compared to an EU average of 3.14% in 2001. In all, 397 of 4,100 Cypriot ships were detained. To move up to the Paris MOU's "grey list," no more than 319 or 7.7% of Cypriot vessels should have been detained. In June 2002, Georgia instituted a new ship safety and inspection law to help improve its record. Also as part of the accession process, Cyprus has instituted more a liberalized investment regime, removing interest rate ceilings and capital controls.

The government first made changes in the investment code to encourage foreign investment in 1986, but many restrictions remained. In 1996, the investment code was liberalized to allow foreign participation of up to 49% in Cypriot companies. Certain services were allowed 100% foreign participation. Sector specific restrictions remain, however, in several important areas including electricity, tourism, and air transport and travel offices. The telecommunications sector, also, has not been privatized. To date the inflow of foreign direct investment (FDI) has remained small, averaging 1.3% of GDP 1997 to 2001. The trend, however, is toward an increase. FDI as a percent of GDP doubled during this period, from 0.9% of GDP in 1997 to 1.8% of GDP in 2001.

### 39 ECONOMIC DEVELOPMENT

The first development plan (1962–66), designed to broaden the base of the economy and to raise the standard of living, resulted in an average annual real growth rate of 5.4%. The second development plan (1967–71) called for an annual growth rate of 7% in the GDP; actual growth during this period was nearly 8% annually. The third development plan (1972–76) envisaged an annual economic growth rate of 7.2%, but a drought in 1973 and the war in 1974 badly disrupted development programs. Physical destruction, a massive refugee problem, and a collapse of production, services, and exports made it impossible for Cyprus to reach the targets.

Since 1975, multi-year emergency economic action plans inaugurated by the Republic of Cyprus have provided for increased employment, incentives to reactivate the economy, more capital investment, and measures to maintain economic stability. The 1994–98 Strategic Development Plan emphasized a free-market, private-sector economic approach with a target GDP growth of 4% annually. The plan called for a domestic savings rate of 22.3% of GDP; an increase of labor productivity of 2.8% between 1994–96; an inflation rate of approximately 3%, and unemployment no greater than 2.8%. As of 1996, Cyprus has largely met these goals with the exception of less than target levels of savings and productivity.

While Cyprus used to receive substantial amounts of development aid, due in part to its own improving economy and a recession in the European donor countries, it now receives little direct financial assistance from other nations.

Since its military intervention in 1974, Turkey has provided substantial financial aid to the Turkish Cypriot area. In 1996, this assistance was estimated to be approximately one-third of the area's GDP, or approximately \$175 million.

Membership in the European Union (EU) is a major goal of the Republic of Cyprus. As a result, Cyprus is harmonizing its laws in accordance with EU standards. At the December 1999 EU summit in Helsinki, Cyprus joined the list of candidates for entry. The Republic of Cyprus has also offered to allow a Turkish Cypriot delegation in its negotiating group. Turkish Cypriots, however, oppose Greek Cypriot entry into the EU prior to both a political settlement of the island's division and Turkish accession to the EU. Many observers believe it unlikely that the EU will allow the Republic of Cyprus to join prior to the island's reunification. Greece, however, has threatened to veto any EU

expansion if Cyprus is denied entry, regardless of the political situation on the island.

#### 40 SOCIAL DEVELOPMENT

A social insurance and non contributory old age pension system is in effect for all employed and self-employed persons. It provides unemployment and sickness benefits; old age, widows', and orphans' pensions; maternity benefits; missing persons' allowances; injury and disability benefits. There is a universal system for a family allowance and child benefits.

Although women have the same legal status as men, women's groups maintain that the divorce law discriminates in favor of men. There have been reports of "honor" crimes, where a woman is victimized by relatives in retaliation for "dishonoring" the family. Sexual harassment is not proscribed by law in the government-controlled area. Spousal abuse is a serious social problem, and legislation passed in 2000 entitled Violence in the Family Law makes it easier to report and prosecute family violence.

Although human rights are generally respected, police brutality continues to be a problem. There are also reports of the mistreatment of domestic servants, usually of East or South Asian origin. Freedom of movement between the Greek and Turkish zones is restricted.

#### 41 HEALTH

As of 2002, the birth rate was estimated at 12.9 per 1,000 people. There were 1,199 doctors, 96 pharmacists, and 428 dentists in 1990. In the mid-1990s there were six hospital beds per 1,000 people in the Republic. In 1995 there were 0.6 dentists and 1 pharmacist per 1,000 people. As of 1996, there were 2.5 physicians and 4.5 nurses per 1,000 people. There are both public and private medical facilities, including about 50 rural health centers. The island has a low incidence of infectious diseases, but hydatid disease (echinococcosis) is endemic. Malaria has been eradicated and thalassaemia, which affected 15% of the population in 1960, has been eliminated. As of 1999, the number of people living with HIV/AIDS was estimated at 400 and deaths from AIDS that year were estimated at 160. The fertility rate in 1999 was two children per mother. The infant mortality rate was estimated at 7.7 per 1,000 live births in 1999 and the average life expectancy was 77 years. In the same year, the general mortality rate was 7.4 per 1,000 inhabitants. In 1994, 83% of children were vaccinated against measles. In 1990, 95% of the population had access to health care services and 100% had access to safe water.

#### 42 HOUSING

Village homes in Cyprus are generally constructed of stone, sundried mud bricks, and other locally available materials; in the more prosperous rural centers, there are houses of burnt brick or concrete. A growing population has resulted in a shortage of dwellings, especially in urban areas. This was further aggravated by the 1974 war, which resulted in the displacement of more than 200,000 people and the destruction of 36% of the housing stock. The government provided temporary accommodations for about 25,000 displaced people and embarked on a long-term plan to replace the lost housing units. Between 1974 and 1990, 50,227 families were housed in a total of 13,589 low-cost dwellings.

In 1982, the Cyprus Land Development Corporation was formed to address the housing needs of low- and middle-income families, including the replacement of old housing stock. By 1991, the corporation had disposed of 573 building plots and helped construct 391 housing units. Between 1975 and 1991, the private sector constructed 83,197 housing units. The total number of housing units grew from about 75,000 in 1976 to about 125,000 at last estimate.

According to a 2001 census, there were about 292,934 conventional dwellings across the country. Nearly 43% were single, detached houses; nother 20% were apartment blocks. About 35,829 conventional dwellings were built from 1996–2001. Most dwellings have from four to seven rooms. The average household contained three people. About 68% of dwellings were owner occupied. About 5.6% of dwellings are temporary housing sites for refugees.

#### 43 EDUCATION

Adult illiteracy rates for the year 2000 were estimated at 3.1% (males, 1.3%; females, 5.0%). In 1959, the Greek and Turkish communities were made responsible for their own school systems. Education is compulsory for nine years, with children attending six years of primary school and six years of secondary. In 1997, there were 376 primary schools with 4,202 teachers and 64,761 students attending them. At the secondary level, there were 4,934 teachers and 61,266 students attending in that same year. The pupil-teacher ratio at the primary level was 15 to 1 in 1999. In the same year, 82% of primary-school-age children were enrolled in school, while 78% of those eligible attended secondary school. Cyprus has no college, so about 14,000 Cypriot students were studying abroad in 1983, including some 3,000 in the United States. The Greek community made plans to open a university for both Greek and Turkish students. Unwilling to agree, the Turkish community instead upgraded the Higher Technological Institute, which is situated near Famagusta, to university level. It opened under the name of Eastern Mediterranean University in 1986. In 1997 the number of students enrolled in post-secondary institutions totaled 9,982, with 1,061 teachers. As of 1999, public expenditure on education was estimated at 5.8% of GDP.

#### 44 LIBRARIES AND MUSEUMS

Cyprus has numerous school, private, and public libraries. The National Library in Nicosia hold 105,000 volumes and serves as the central library for the Republic of Cyprus. There are also municipal libraries in Famagusta, Limassol, Ktima, Larnaca, and Paphos, and bookmobile services in the Nicosia environs. Among the most important specialized libraries are those of the Cyprus Museum (15,000 volumes), the Phaneromeni Library of the Eastern Orthodox Church (33,000), and the Cyprus Turkish National Library (56,000), all in Nicosia. The University of Cyprus holds 150,000 volumes in Nicosia.

The Department of Antiquities is responsible for a wide, continuing program of research at Neolithic and classical sites. On behalf of ecclesiastical authorities, it conserves the cathedrals, mosques, monasteries, and other monuments, and over a period of many years has cooperated with numerous scientific expeditions. The entire range of archaeological discoveries from prehistoric to medieval times is displayed in the Cyprus Museum at Nicosia. In addition to the Cyprus Historical Museum and Archives and the Folk Art Museum in Nicosia, there are important collections in museums at Paphos, Larnaca, and Limassol. In all, there are about 20 museums in Cyprus, the majority being archaeological and historical. There are over 1,000 monuments and historic sites.

#### 45 MEDIA

The Cyprus Telecommunications Authority (CTA) operates the internal communications system. The telephone network is nearly wholly automatic, and the CTA connects Cyprus with more than 67 other countries; in 1980, its first telecommunications satellite, Makarios, was placed in earth orbit. In 1998, there were an estimated 405,000 mainline telephones in use in the Greek Cypriot sector and 83,162 in the Turkish Cypriot area. The same year there were about 68,000 cellular phones in use in the Greek

Cypriot area and, by 1999, 70,000 cellular phones in the Turkish area.

The Cyprus Broadcasting Corp. maintains regular service. Commercial spot announcements and a few sponsored programs are permitted on both radio and television. Radio programming in both AM and FM is transmitted by the CBC on two channels in Greek, Turkish, Arabic, and English. Private radio stations have been allowed since 1990, and there were 30 licenses issued by the end of 1992. The CBC has two channels, and licenses have been granted to four private stations (one of them cable) since April 1993. The main television transmitting station is located on Mt. Olympus. Since 1980, the television service has been linked via satellite with the Eurovision network for live transmission of major events in Europe. As of 1998, the Greek sector had 7 AM and 60 FM radio stations; the Turkish sector had 3 AM and 11 FM stations. In 1995, each area had four television stations. In 1997, the Greek Cypriots had about 310,000 radios and 248,000 television sets in use throughout their area. In 1994, the Turkish Cypriots had about 56,540 radios and 52,300 television sets in use. Nationwide, there were about 120,000 Internet subscribers served by six service providers in 2001.

Nicosia has traditionally been the publishing center for the island and the editorial headquarters of nearly all the daily newspapers and weeklies. There is no censorship in the south, and newspapers are outspoken on political matters. The following are the major daily newspapers (with estimated 2002 circulations):

	ORIENTATION	CIRCULATION
<i>O Phileleftheros</i> (Greek)	Independent liberal	26,000
<i>Kibris</i> (Turkish)	NA	13,000
<i>Althia</i> (Greek)	NA	11,000
<i>Haravghi</i> (Greek)	Communist	9,000
<i>I Simerini</i> (Greek)	Conservative	9,000
<i>Apogevmatini</i> (Greek)	Independent moderate	8,000
<i>Halkin Sesi</i> (Turkish)	Independent nationalist	6,000
<i>Agon</i> (Greek)	Independent right-wing	5,000
<i>Cyprus Mail</i> (English)	Independent conservative	4,000

Freedom of speech and the press are mandated by law and are said to be in full support by the government. Private television and radio stations and university-run stations compete successfully with the government-controlled stations.

#### 46 ORGANIZATIONS

The government encourages cooperative societies in many ways, including exemption from certain forms of taxation. In 1962, the island's main commercial organizations, the Cyprus Chamber of Commerce, the Cyprus Federation of Trade and Industry, and the Union of Industrialists, combined to form the Cyprus Chamber of Commerce and Industry. There is also a Turkish Cypriot Chamber of Commerce in Nicosia. Professional and trade organizations cover a wide variety of careers.

There are a great number of youth organizations, particularly athletic clubs. The Pancyprian Federation of Students and Young Scientists (POFNE) serves as an umbrella organization for student movements. Some political parties have youth organizations, such as the Cyprus Socialist Youth, the Cyprus Workers Federation Youth Section, and the Democratic Party Youth. Scouting organizations are active in the country and there are branches of the YWCA.

#### 47 TOURISM, TRAVEL, AND RECREATION

Although Cyprus is located off the main routes of travel and has few luxury hotels, the island's salubrious climate, scenic beauties,

extensive roads, and rich antiquarian sites have attracted numerous visitors. In 2000 there were 43,363 rooms with 84,478 beds available in hotels, primarily located in the larger towns on the coasts. Tourism generated \$1.8 billion in earnings that year, with 2,686,205 foreign visitors, of whom about 90% came from Europe.

All visitors must have a valid passport. Tourists from certain countries, including the United States, Canada, and the United Kingdom, many stay for up to three months without a visa.

In 2003, the US Department of State estimated the daily cost of staying in Nicosia as \$215 per day. In other areas, expenses can range from \$120 to \$190 per day.

#### 48 FAMOUS CYPRIOTS

Most widely known of Cypriots in the pre-Christian world was the philosopher Zeno (335?–263? BC), who expounded his philosophy of Stoicism chiefly in the marketplace of Athens.

Makarios III (1913–77), archbishop and ethnarch from 1950 and a leader in the struggle for independence, was elected the first president of Cyprus in December 1959, and reelected in 1968 and 1973. His successor as president, Spyros Kyprianou (1932–2002), also was twice elected to the office, in 1978 and 1983. Rauf Denktash (Denкташ b. 1924), the leader of the Turkish Cypriot community, was elected vice-president of Cyprus in 1973, became president of the TCFS in 1975, and of the TRNC in 1983; he was reelected in 1985.

#### 49 DEPENDENCIES

Cyprus has no territories or colonies.

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# EAST TIMOR

**CAPITAL:** Dili

**FLAG:** The national flag is rectangular. Two isosceles triangles, the bases of which form the left edge and overlap each other. One triangle is black and its height is equal to one-third of the length overlapped to the yellow triangle, whose height is equal to half the length of the flag. A white five-pointed star, signifying “the light that guides,” is centered on the black triangle. The remaining part of the flag is red.

**ANTHEM:** *Pátria! Pátria!* (Nation! Nation!) was designated the national anthem until a new anthem is voted on by the National Assembly.

**MONETARY UNIT:** East Timor has adopted the US dollar (\$) of 100 cents. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar, and notes of 1, 5, 10, 20, 50, and 100 dollars.

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

**HOLIDAYS:** New Year’s Day, 1 January; Labor Day, 1 May; Assumption Day, 15 August; Constitution Day, 30 August; All Saints Day, 1 November; Santa Cruz Day, 12 November; Independence Day, 28 November; Feast of the Immaculate Conception, 8 December; Christmas, 25 December. Movable holiday is Good Friday.

**TIME:** 9 PM = noon GMT.

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

East Timor survives within Timor, an island roughly the size of the Netherlands (32,000 sq km/12,355 sq mi) that forms an arc between Asia and Australia and is situated within the Nusatenggara Archipelago. Opposite the well-traveled island of Bali, East Timor is surrounded by the Indian Ocean at the south at the Pacific Ocean at the north. Its size rivals New Jersey or Israel, and its 15,007-km (9,325-mi) territory extends beyond its mainland to include the enclave of Ocussi-Ambeno in West Timor, and the islands of Atauro in the north and Jaco in the east. Dili, a small port city on the northern coast, is the capital.

## <sup>2</sup>TOPOGRAPHY

The landscape offers a patchwork of rugged mountains, waterfalls, coastal lagoons, and diverse features that span variable vegetation, dry grasslands, savannah forests, gullies and patches of dense rainforests. Gunung Tata Mai Lau, a mountain that forms the highest point on East Timor, reaches 2,963 m (9,721 ft) just south of the capital city of Dili, and the Lacló river in the north stretches some 80 km (50mi), forming the longest river.

## <sup>3</sup>CLIMATE

Temperatures in the dry season, from May to November, average 20°–33°C (68–91°F). The weather during this season is pleasant and dry. Around October or November, oppressive humidity arrives, and monsoon cloud activity builds up. The wet season, from December to April, sees average temperatures of 29°–35°C (84–95°F), with heavy rains and flooding. In the mountains, day temperatures are warm to hot, but are cool to cold at night. Earthquakes, tsunamis, and tropical cyclones occur.

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

The primary forest area of East Timor has been reduced to around 220,000 acres, or 1% of the territory. Dense forests are found only on the south coast or in mountainous areas. The vegetation consists mostly of secondary forests, savannah, and

grasslands. Flora includes ironwood, eucalyptus, black eucalyptus, redwood, sandalwood, cendana, and lontarwood. Fauna include deer, monkeys, cockatoos, horses, cows, and beo kakoaks.

## <sup>5</sup>ENVIRONMENT

The main environmental threats come from the widespread use of slash and burn agriculture, which has led to deforestation and soil erosion. As of 2001, there were 24 endangered species of birds in East Timor, including the black kite, shirt-toed eagle, Japanese sparrow eagle, and red-cheeked parrot.

## <sup>6</sup>POPULATION

The population of East Timor was estimated at 952,618 in 2002. The population growth rate was 7.26%. In 2002, there were 28 births per 1,000 people and a death rate of 6.5. The life expectancy at birth was an average 65 years (63 years for men and 67 years for women). The fertility rate was 3.88 children born per woman. The population of Dili was estimated at 49,900 in 2002.

## <sup>7</sup>MIGRATION

Although “Timor” is the Malay word for “Orient,” East Timor’s people betray a long procession of migrations from the west, north, and east. The Portuguese arrived on the island in the early 16th century. At the end of 2002, there were approximately 30,000 East Timorese refugees living in settlements in the West Timorese countryside. There were 51 migrants per 1,000 population in 2002.

## <sup>8</sup>ETHNIC GROUPS

Historically the ethnic population was largely defined by the Atoni and the more dominant Belu, which was a blend of Malay, Melanesian, and Austronesian peoples who were fluent in the Tetum language. At independence in 2002, the approximate ethnic divisions in the population were as follows: 78% Timorese, 20% Indonesian, and 2% Chinese.

## 9 LANGUAGES

In addition to Tetum, there are about 15 other indigenous languages spoken within East Timor. Tetum, Galoli, Mambai, Tokodede are classified as Austronesian languages, while Bunak, Kemak, Makassar, Dagada, Idate, Kairui, Nidiki, and Baikenu are the non-Austronesian tongues. Tetum and Portuguese are official languages. Indonesian and English are also prominent.

## 10 RELIGIONS

The last available figures on religion were collected in 1992 (before independence), at which time about the population was 90% Roman Catholic, 4% Muslim, 3% Protestant, 0.5% Hindu and an undetermined number were Buddhist. As of 2002, the dominant religion still appeared to be Catholicism; however, it is believed that a number of registered Catholics actually practice traditional animism, a religious category which had not been officially recognized by the Indonesian government.

The new government has generally respected the regulations for freedom of religion that were established by the UNTAET administration. Though public opinion had leaned toward making Catholicism the national religion, the presiding Bishop Carlos Filipe Ximenes Belo (a Nobel Peace Prize laureate) encouraged members of the Constituent Assembly not to make such a designation. The 2002 constitution instead provides for the separation of church and state.

Due to past associations with Indonesian occupation groups, some Muslim and Protestant minorities have reported social harassment.

## 11 TRANSPORTATION

Rebuilding the transportation infrastructure has been a key concern for the nation. As of 2002, there were no railways reported. Highways stretched across about 3,800 km (2,361 mi), but only about 428 km (266 mi) were paved and these roads remained poorly maintained. Driving accidents are frequent due to poor road conditions, lack of illumination, and the absence of required driving permits. Roads are widely shared by pedestrians and vendors, especially in city areas. Taxis, small buses, and minivans provide public transportation, but the system is generally overcrowded and not reliable.

There were eight airports operating in 2001, but only three had paved runways. There was one heliport in 2002.

## 12 HISTORY

Since the mid-to-late 1500s, the island of Timor and its lush offering of sandalwood lured both Portuguese and Dutch explorers, who contested for the territory until an official territorial division was determined through the *Sentença Arbitral* in April 1913. Unlike the Dutch, Portugal's sphere of influence was concentrated in the local leadership of the East Timorese "liurai rei": rulers, chieftains and biracial families known as the "Black Portuguese" who were of Timorese and Portuguese parentage. While Portugal's colonial hold on East Timor failed to avail the local population of educational and general advancement opportunities, even leaving the island with barely 30 km (19 km) of paved asphalt road, its detachment enabled the East Timorese cultural identity to remain largely intact and unscathed by modernity.

Ironically, efforts to crush the East Timorese are not traced to the Portuguese, but to the Indonesian people and their brutal tactics for integration following Portugal's exodus from the island. When the "Carnation Revolution" of April 1974 prompted the demise of nearly fifty years of dictatorship in Portugal, the decolonization of East Timor, among Portugal's other colonies, seemed a favorable consequence. By the start of May 1974 three political parties surfaced within the island: the Apodest Timori (Timorese Democratic People's Union), largely a

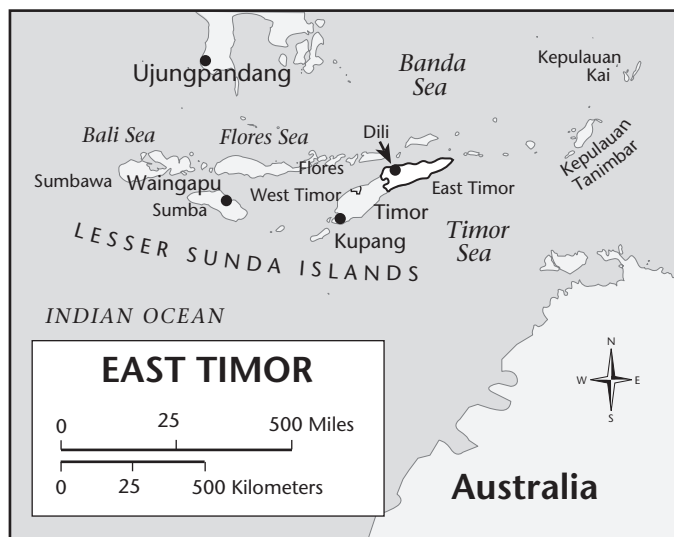
device of the Indonesian government that advocated that East Timor be integrated into Indonesia; the UDT (Democratic Union of Timor), advocating a progressive process of autonomy under Portugal; and the ASDT (Timorese Social Democratic Association), which later became the left-wing independence movement Fretilin (Revolutionary Front for an Independent East Timor), advocating the island's total independence.

The subsequent union and mounting popularity of UDT and Fretilin by January 1975 proved threatening enough to the Indonesian government that President Suharto, whose integrationist stance was already endorsed by the United States, Australia, Japan, and other nations, justified his military intervention in East Timor through the "Operasi Komodo." Authored by the president's intelligence-supremo Ali Moertopo (1924–84), Operasi Komodo essentially splintered Fretilin as being secretly Communist and served to splinter its alliance with the UDT by May. Consequently, on 6 June 1975, Indonesia already occupied the Oecussi-Ambeno enclave under the guise of restoring order in East Timor, which had not endured any form of foreign occupation with the exception of a brief but brutal occupation by the Japanese during World War II (1939–34).

Despite Indonesian presence and pressure within East Timor, Fretilin still gained 55% of the popular vote in local elections on 29 July 1975. Thus again threatened, Indonesia manipulated the UDT to counter Portuguese authority and Fretilin's influence through a coup staged from 11 August through 24 September 1975. However, the coup against Fretilin failed; in fact, Fretilin instead gained control of the entire East Timorese territory and launched humanitarian advancements (in education, medical treatment, and local decision-making) that had been historically denied to the islanders. Still, reports generated by the US Central Intelligence Agency discerned Indonesian infiltration and fighting within East Timor and around its borders during mid-September and through October 1975. After capturing the violence on videotape, four foreign journalists were executed by Indonesian militia on 17 October 1975 and tension between pro- and anti-independence forces was heightened. On 28 November 1975, Fretilin's formal assertion of an independent state of East Timor was answered the very next day by Moertopo's "petition" for the integration of East Timor into Indonesia through the "Balibo" Declaration, which UDT leaders were forced to sign.

On 7 December 1975, only one day after a visit to Jakarta by President Gerald Ford and Secretary of State Henry Kissinger of the United States, Indonesia deployed 10,000 troops—by sea, air, and land—into Dili after an already devastating naval and aerial bombardment led by General Benny Murdani. Within days of an invasion marked by public torture, rape, and the random killing of mass civilians, Portuguese governor Mario Lemos Pire and his remaining administration made a covert and final exodus during the night to the island of Atauro, marking the end of over 460 years of colonization, without decolonization achieved. On 17 July 1976, Indonesia claimed East Timor its 27th province despite condemnation from the United Nations, and it continued full-scale attacks through March 1979 through weaponry largely supplied by the United States under the administration of President Jimmy Carter. Within a year of the attack, an estimated 60,000 East Timorese had been killed, while tens of thousands sought refuge from the Armed Forces of the Republic of Indonesia (ABRI) in the rugged mountainous interior of East Timor, where Fretilin guerrilla forces remained; others were forced into Indonesian resettlement camps, where disease, malnutrition, and death were rampant. The island was relegated to a "closed colony" status by the military from December 1975 through 1 January 1989.

It has been estimated that some 250,000 were killed since 1975 when warfare seized the island. Mass terror and killings were widespread, including 1,000 in Aitana in July 1981, 400 in Lacluta in September 1981, and, finally securing international



LOCATION: 8° 50'S, 125° 55' E. BOUNDARY LENGTHS: Indonesia, 228 km (142 mi).  
COASTLINE: 706 km (439 mi).

attention, some 270 during the Santa Cruz massacre of 12 November 1991, in which peaceful mourners and demonstrators were killed by Indonesian troops' open fire in a cemetery in Dili. While Indonesia experienced a shift in leadership with the forced resignation of President Suharto in 1997 and rise to power of his vice president, B. J. Habibie, East Timor endorsed Fretilin leader José Alexandre "Xanana" Gusmão, then the president of the National Council of Timorese Resistance (CNRT). Their continued resistance against military occupation and terror, coupled with heightened international scrutiny of the atrocities within the island, may have prompted Habibie in January 1999 to extend the choice to East Timorese citizens: autonomy under Indonesian rule, or outright independence. An overwhelming 99% of eligible voters were present during the 30 August 1999 referendum, which secured the vote for independence.

However, postelection violence and killings led by pro-Indonesian militias and the army, which killed more than 1,000 people and drove some 250,000 from East Timor following the election, were a dark reminder of East Timor's subjugation to the Indonesian military, which has long remained the source of ultimate government authority. Following a unanimous decision on 25 October 1999 by the UN Security Council, East Timor was governed by UNTAET (the United Nations Transitional Administration in East Timor) and the National Consultative Council (originally formed by 15 East Timorese whose representation was later increased to 33), with the mission to rebuild the island and establish a new government by the close of 2001. In September 2001, a constituent assembly was elected, and given with the task of writing a constitution for East Timor. In April 2002, José Alexandre "Xanana" Gusmão defeated Xavier do Amaral for the presidency, and on 20 May 2002 East Timor became an independent nation. A successor mission to UNTAET, the United Nations Mission of Support in East Timor (UNMISSET) was established to provide assistance to East Timor over a period 12 months, especially in matters of law enforcement and security. East Timor became the 191st UN member state on 27 September 2002.

As of December 2002, there were an estimated 30,000 remaining of the 250,000 people who, after the violence of September 1999, first arrived in settlement camps found along the countryside of West Timor, largely around the town of Atambua. More live outside the camps or elsewhere in Indonesia. The Indonesian government and the office of the UN High Commissioner for Refugees declared that all East Timorese

residing in Indonesia would lose their refugee status after 31 December 2002.

Indonesia's attempts to bring to justice those responsible for the 1999 violence in East Timor have been heavily criticized. Under intense international pressure, Indonesia set up a special human rights court to try those responsible for the violence. The court's record—in both investigating the involvement of Indonesia's most senior security officials and its apparent willingness to acquit others with what is considered overwhelming evidence against them—has been condemned. As of 20 January 2003, the court had indicted eighteen suspects for atrocities in East Timor: four were convicted, eleven acquitted, and three cases were still being heard.

Bishop Carlos Ximenes Belo, who shared the Nobel Peace Prize with José Ramos Horta in 1996, announced his resignation in November 2002. He won the prize for his stand in defense of Timorese rights. In 1999, militia gangs attacked and burned his residence where hundreds of refugees were being sheltered. In December 2002, the Indonesian human rights court sentenced the first Indonesian military official convicted in the 1999 violence for failing to prevent pro-Indonesian militiamen from attacking Belo's home. The official, Lt. Col. Soedjarwo, was sentenced to five years in prison.

Disputes between Australia and Indonesia over parts of the oil- and gas-rich seabed of the Timor Sea led to the signing of the 1989 Timor Gap Treaty, which resulted in a 50–50 split of the royalties from the shared zone of undersea exploration between Australia and Indonesia. In May 2002, the treaty was renegotiated, and newly independent East Timor was granted 90% of the royalties, with Australia receiving 10%. However, the terms of the agreement were conditional on East Timor foregoing its territorial claim to almost the entire oil and gas field. Foreign officials estimate a potential revenue flow of several tens of millions of dollars a year to East Timor.

### 13 GOVERNMENT

A parliamentary system of government with a largely ceremonial president was established as a result of elections held 30 August 2001 for a Constituent Assembly to draft a constitution for East Timor. On 22 March 2002, the Constituent Assembly approved East Timor's constitution. The constitution was modeled largely on that of Portugal, although the German and US constitutions were consulted as well. The constitution bans the death penalty and provides for fundamental political rights and civil liberties, including due process rights. In the elections for the Constituent Assembly, held 30 August 2001, Fretilin took 55 of the 88 seats. Twenty-three of the candidates, or 27% of the total, were women.

The Constituent Assembly was transformed into the National Legislative Assembly, or National Parliament, on 20 May 2002. The unicameral National Legislative Assembly is composed of a minimum of 52 and a maximum of 65 members, serving five-year terms. Thirteen of the members are district representatives, corresponding to East Timor's 13 districts. For its first term of office, the National Parliament was comprised of 88 members on an exceptional basis.

The first presidential elections were held 14 April 2002. José Alexandre "Xanana" Gusmão defeated Xavier do Amaral for the presidency, winning with 82.7% of the votes cast. Mari Alkatiri was chosen as East Timor's first prime minister. A Council of State advises the president. It is composed of former presidents who were not removed from office, the prime minister, the speaker of parliament, five members elected from parliament, and five members appointed by the president. A Council of Ministers is comprised of the prime minister, any deputy prime ministers, and the ministers of state.

## 14 POLITICAL PARTIES

There were 16 registered parties for the Constituent Assembly elections held in August 2001. Fretilin won 57.37% of the national votes and elected 12 of the 13 district representatives. The 12 parties represented in East Timor's first 88-member Parliament were: Fretilin (Revolutionary Front of Independent East Timor), 55 seats; the Democratic Party (PD), 7 seats; the Social Democratic Party (PSD) and the Social Democratic Association of Timor (ASDT), 6 seats each; the Democratic Union of Timor (UDT), the Christian Democratic Party (PDC), the People's Party of Timor (PPT), the Nationalist Party of Timor (PNT), and the Timorese Monarchist Association (KOTA), 2 seats each; the Liberal Party (PL), the Christian Democratic Party of Timor (UDC/PDC), the Socialist Party of Timor (PST), and an independent candidate, 1 seat each.

## 15 LOCAL GOVERNMENT

East Timor is divided into 13 districts: Aileu, Ainaro, Baucau, Bobonaro, Covalima, Dili, Ermera, Lautem, Liquiçá, Manatuto, Manufahi, Oecussi, and Viqueque. The districts are further divided into 68 *postos* (sub-districts). A *posto* is further divided into *sucos*, or clusters of villages. There are approximately 500 *sucos* in the country. *Sucos* are divided into *aldeias* (villages), and there are approximately 2,100 *aldeias* in East Timor.

## 16 JUDICIAL SYSTEM

A Ministry of Justice was established in East Timor to guarantee an independent and impartial judiciary. A department of judicial affairs is responsible for the recruitment, appointment and training of judges, prosecutors and public defenders.

The Supreme Court of Justice is the highest court in the nation, with the power of judicial review. There is a High Administrative, Tax, and Audit Court, military courts, and the constitution provides for maritime and arbitration courts.

In March 2000, UNTAET created a civil law court system with 13 district courts and one national Court of Appeal. The law later was amended to include a court system of only four district courts and one national Court of Appeal. The four district courts are located in Dili, Baucau, Suai, and the Oecussi enclave. The district courts have jurisdiction over criminal and non-criminal offenses referred to as "ordinary crimes," whereas special panels within the Dili District court have exclusive jurisdiction over "serious criminal offenses."

As of October 2002, the court system in East Timor was limited in operation. The Court of Appeal was not functioning, due to delays in the recruitment and contracting of international judges, as well as the appointment of Timorese judges. A backlog of cases raised human rights concerns, as cases pending trial and appeal were unable to be heard within a reasonable amount of time.

## 17 ARMED FORCES

The East Timor Defense Force, established in 2000, comprises a light-infantry division of about 1,500 regulars and an additional 1,500 reservists. Basic training for the first group of recruits was aided by Portugal, with special training programs aided by Australia. In April 2002, UN Peacekeeping Forces totaled about 6,200 members from 20 countries. The number of UN forces is expected to decline as the government and the UN continued to make arrangements for national security. The general military age is 18–21 years old. Both male and female recruits have been accepted. Military expenditures for 2003 were estimated to be at about \$4.4 million.

## 18 INTERNATIONAL COOPERATION

East Timor joined the UN in September 2002. The nation is also a member of the IMF and World Bank, and the ADB. The nation is considering membership in ASEAN.

## 19 ECONOMY

As a result of the post-independence referendum violence in 1999 led by Indonesian troops and anti-independence militias, approximately 70% of the economic infrastructure was devastated, and some 250,000 people moved into West Timor. Reconstruction efforts undertaken by UNTAET improved both urban and rural areas. Agriculture remains the main source of income in most of the country's villages, with only a small percentage of people selling a significant proportion of their rice or maize harvest. During 2000 and 2001, the agriculture sector expanded, due to a rebuilding of seed stocks and irrigation systems, improved access to fertilizer and transportation, a reduced threat of violence, and high demand resulting from the large international presence in the country. The services sector also registered strong growth in 2000–01 in order to meet the needs of the international staff and reconstruction efforts. Since mid-2002, however, growth moderated, as a result of the winding-down of the international presence. During the Indonesian occupation, tourism was not a large industry, but there is a great potential growth in this area. The East Timorese economy stands to benefit in the long term from the development of the oil- and gas-rich seabed of the Timor Sea.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 East Timor's GDP was estimated at \$415 million. The per capita GDP was estimated at under \$500. The annual growth rate of GDP was forecast at -2% in 2003. The average inflation rate was estimated at 3% in 2001. 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 25% of GDP, industry 17%, and services 57%.

## 21 LABOR

The labor force in 1998 was 397,131. Subsistence agriculture accounts for three-fourths of employment. The unemployment rate, including underemployment, stood at approximately 50% in 2002.

## 22 AGRICULTURE

As of 2003, there are only about 174,000 hectares (430 acres) of arable land in East Timor. With generally poor and shallow soil, steep terrain, and an unreliable climate, most farming is at a subsistence level. The farming system is based on slash and burn farming shifting cultivation. In the north and a few fertile areas of the south, maize, cassava, cowpeas, and sweet potatoes are primary crops. Rice is cultivated in lowlands with the help of semi-irrigation and technical irrigation systems. The main harvest for maize occurs from February through April. The main harvest for rice occurs from May through September in the north and from August through November in the south. Other agricultural products include, soybeans, cabbage, mangoes, bananas, vanilla, mung beans, taro (swamp and upland), onions, peanuts, sago, coconuts, and tobacco.

Coffee serves as an important cash crop, with over 60% of the country's organic coffee being produced in the Ermera district. Bobanaro, Oecussi, Viqueque, and Baucau are the most important food producing districts. In 2003, agriculture accounted for about 25% of the GDP.



## 23 ANIMAL HUSBANDRY

Most livestock production is based on household farms, with larger animals kept primarily for household use and consumption while pigs and smaller animals are sold for cash. Though there are some large herds of cattle, buffalo, sheep, and goats, most farms keep smaller numbers of a variety of animals. In 2001, the Ministry of Agriculture reported the livestock populations to be: 79,400 goats, 23,700 sheep, 343,100 pigs, 670,900 chickens, 7,000 pedigree chicken, 11,200 ducks, 166,200 cattle, 101,700 buffalo, and 45,200 horses.

## 24 FISHING

Coastal communities have historically relied on fishing as a main source of food and income, with catches that include large tuna, flying fish, coral reef fish, and deepwater snappers. The violence following independence caused serious damage and destruction to nearly 90% of the boats and gear of these communities, as well as to the onshore processing infrastructure. The industry is slowly moving toward recovery through the work of the Department of Fisheries and the Marine Environment (DFME) in the Ministry of Agriculture and Fisheries and with the help of various international volunteers and agencies. For instance, in 2003 officials from the DFME met with Australia's minister for primary industry and fisheries in Australia's Northern Territory to discuss training opportunities in tropical fisheries management.

Besides working to recover maritime fishing activities, the DFME is exploring options for inland hatcheries and freshwater fish production. One such project includes breeding fish in rice fields.

In 2002, the DFME estimated that of the 20,000 fishermen in East Timor, over 50% were involved in fishing as their primary source of food and income.

## 25 FORESTRY

Data from the government of Indonesia has shown the alarming trends of deforestation on the once forest-rich lands of East Timor. In 1975, about 50% of East Timor's land was primary and secondary forest. By 1989, the figure dropped to about 41% and by 1999, only 1% of these forests remained. Most of the deforestation was conducted under logging operations for teak, redwood, sandalwood, and mahogany for export. The use of wood as a primary fuel source has added to the problem of diminishing forests.

In 2000, the UNTAET administration issued Regulation 2000-17 to prohibit any logging operations that would include the export of logs, lumber, and/or furniture from East Timor. Burning and destruction of remaining forests for any reason was also prohibited. The UNDP has launched several programs to counter deforestation as well as begin reforestation. These include a nationwide seed propagation program to establish community nurseries and encourage replanting of forestlands, particularly on hillsides and in areas where erosion is a problem. There are also subsidy programs in the works to provide low-cost kerosene and cookers to rural residents in an effort to reduce dependency on wood as fuel.

## 26 MINING

There are small deposits of gold, manganese, and copper throughout the nation, but not enough to be considered for major commercial industries. Marble is present in significant quantities, but it seems uncertain as to whether or not the exploitation of such deposits will have a significant impact on the country's economy in the near future.

## 27 ENERGY AND POWER

East Timor's ability to develop its oil and gas reserves in the Timor Sea will greatly affect the economy. By 2003, the government planned to introduce a petroleum fund, designed to enhance transparency and accountability in the management of oil and gas revenues. A gas recycling project in the Bayu Undan offshore gas field was expected to begin in 2004. Revenues from that and other projects were projected to flow in by 2006. Fossil fuels account for 100% of electricity production.

## 28 INDUSTRY

Before the Indonesian invasion in 1975, East Timor was self-sufficient in food and enjoyed revenue from the coffee industry. The US Agency for International Development (USAID) was one organization supporting East Timor's coffee industry in the early 2000s, especially through the Cooperative Coffee Timor (CCT). East Timor at that time was heavily dependent upon food aid, however, and the agriculture industry was in need of development. Other industries include printing, soap manufacturing, handicrafts, and woven cloth.

## 29 SCIENCE AND TECHNOLOGY

There was no university in East Timor under the Portuguese. The Universitas Timor Timur (UNTIM) was established in 1986 under Indonesian rule. By 1998/99, it had nearly 4,000 students in three main faculties—agriculture, social and political sciences, and education and teacher training. The Indonesian government closed the UNTIM following the April 1999 demonstrations demanding an independence referendum. The Polytechnic in East Timor had technical courses based in Becora and at a campus in Hera; it provided courses in electrical and mechanical engineering, civil construction, and accountancy. The education system was a target for destruction by the Indonesian military and their militias. The UNTIM and Polytechnic buildings in Dili and Hera were looted and burned. A new university was established by former UNTIM and Polytechnic staff and students, without funding from UNTAET. In September 2000, the government allotted \$1.3 million to the university from East Timor's education budget. The National University of East Timor (Universidade Nacional Timor Lorosae—UNTL) opened for classes on 27 November 2000. There are five faculties: agriculture, political science, economics, education and teacher training, and engineering. All new students follow a course including human rights, ethics, philosophy of science, and Timorese history.

## 30 DOMESTIC TRADE

Local businesses realized weak performance in the early 2000s, as they attempted to recover from the post-independence referendum violence. Traditional markets are filled by the local community, while foreign-owned businesses are largely patronized by the wealthy. In April 2001, the World Bank launched a \$4.85 million small enterprises project, offering loans of \$500 to \$50,000 to East Timorese with viable business plans. The project also finances the delivery of business skills training to small and medium-sized enterprises.

## 31 FOREIGN TRADE

Trade in East Timor in 2002-03 was dominated by foodstuffs, construction materials, electronics, and clothing. Some 97% of manufactured goods are imported, with coffee being the sole significant export. Australia and Portugal are East Timor's principal trade partners. East Timor in the early 2000s was seeking trade partners to develop its oil and gas reserves, among them China and Malaysia. Coffee is exported to the United States, Australia, New Zealand, Italy, and the Netherlands, among other countries.

### **32 BALANCE OF PAYMENTS**

The external current account was in large deficit by 2003 (-\$230 million), resulting in large measure from imports associated with donor-assisted reconstruction activities. The deficit was more than financed by official transfers, however, and, inclusive of these transfers, the external current account was in surplus (\$37 million). In 2001, the CIA estimated exports at \$8 million, and imports at \$237 million. The IMF estimated East Timor would maintain a negative merchandise trade balance of \$163 million in 2003, with an overall trade deficit of \$3 million. Development assistance during the 1990s totaled \$81 million, increasing from \$1 million in 1989 to more than \$12 million in 1999. As of 2002, East Timor was receiving \$2.2 billion in economic aid.

### **33 BANKING AND SECURITIES**

The finance sector is small, with a limited central bank role played by the Banking and Payments Authority (formerly the Central Payments Office). There are two operating branch offices of overseas banks (the ANZ Banking Group and the Banco Nacional Ultramarino) and informal lenders comprise the remainder of the finance sector.

### **34 INSURANCE**

It is possible to obtain insurance for vehicles in East Timor, although virtually no one does so. Most individuals involved in traffic accidents informally settle them. Third-party motor vehicle insurance is unavailable. Information on life or other forms of insurance was unavailable as of mid-2003.

### **35 PUBLIC FINANCE**

East Timor proposed a \$77 million budget for the 2002/03 fiscal year. The government anticipated \$42 million in revenues from the Timor Sea Arrangement and from taxes and other revenue; the rest of the budget was expected to come from international donors. East Timor has limited access to domestic borrowing, and the government is cautious with regard to external borrowing. East Timor's public deficit stood at \$7.4 million in 2002, and was projected at \$5.8 million in 2003.

### **36 TAXATION**

In 2000, UNTAET issued a "Revenue System for East Timor," providing the basis for a tax regime. It largely adopted the Indonesian Income Tax Law with some modifications. East Timor's tax system is designed to tax business profits and "designated passive" income. Business profits include capital gains. Passive income includes interest, royalties, and rental and dividend income. The standard income tax rates for resident companies and individuals are 10% on the first \$3,368; 15% on the next \$3,368; and 30% on income over \$6,737.

Employment-related income initially was not subject to income tax; however, a "wage income tax" (WIT) was levied for wages received on or after 1 January 2001. WIT applies to employment-related remuneration only, as opposed to general personal income. WIT is due as follows: the rate is 0% on monthly salaries of \$0 to \$100; 10% on monthly salaries of \$101 to \$650; and 30% on monthly salaries of \$651 or more.

### **37 CUSTOMS AND DUTIES**

Excise taxes are imposed on the import or domestic production (but not both) of certain goods. Goods are exempt from excise taxes if they are exported from East Timor within 28 days of production and are exempt from import duty, or if they relate to the Timor Gap Agreement. Goods subject to excise taxes include (but are not restricted to) the following: confectionery, fruit juices, ice cream, soft drinks, tobacco, gasoline, diesel fuel, beer, wine, other alcohol, make-up, shampoos, toiletries, electrical

goods, mobile phones, televisions, automobiles, motorcycles, and arms and ammunition.

As of 2001, all imported goods were subject to an import duty of 5% of the customs value (CIF value).

### **38 FOREIGN INVESTMENT**

Most foreign investment is from Singapore and Australia, and has centered in the hotel and restaurant business, the importation of used cars, and construction. The government in 2002/03 was encouraging foreign investment in light industries such as textile, garment, and shoe factories. Fishing and ecotourism also have potential for foreign investment (East Timor has some of the best scuba diving in Asia). Rudimentary infrastructure and a lack of skilled labor hamper investment. Investors have little guarantees regarding property rights, insurance, or bankruptcy. The labor law also serves to inhibit foreign investment because it is difficult for employers to fire East Timorese workers, and businesses are prohibited from hiring replacement employees during a strike.

### **39 ECONOMIC DEVELOPMENT**

Although East Timor was expected to rely upon significant amounts of foreign aid in the medium term as of 2003, it was on the path to greater self-reliance. In the context of a reduced international presence, the government was improving its administrative capacity and taking steps toward nation-building in accordance with its National Development Plan (NDP). The country stands to benefit from the development of oil and gas reserves in the Timor Sea, which is expected to sharply increase government revenues. The NDP covering the fiscal years 2002/03–2006/07 set out certain objectives, including the attainment of 5% growth in GDP over the medium term and the alleviation of poverty. The government indicated the need to develop the private sector and build up local institutions in addition to maintaining a stable macroeconomic environment. Other NDP goals included promoting good governance and creating jobs.

### **40 SOCIAL DEVELOPMENT**

As of 2003, humanitarian concerns remained at the forefront of social development in East Timor. The rehabilitation of roads was providing access to rural areas that otherwise would have remained isolated. Electricity was being brought to rural areas, which would increase the potential for social benefits. Water-supply projects improved access to safe water, and freed women and children from the task of collecting water. Increased emphasis was being placed upon nutrition and health programs. Market vendor loans were being granted equally to men and women, but certain group loans were disproportionately awarded to women. These loans were geared to support employment on farms and in households and small trading businesses.

The United National Development Fund for Women (UNIFEM) initiated a program to increase the participation of women in decision-making for peace and gender justice. The program was geared to assist local communities to make concrete use of national instruments such as the constitution, parliament, courts, and certain legislation, from a rights-based and gender perspective. Another UNIFEM program, on gender, globalization, and marketing, was dedicated to upgrade the production of textiles in East Timor.

East Timorese women under Indonesian occupation were systematically raped, tortured, and imprisoned as sex slaves, and the process of recovery from that period is ongoing.

East Timor's constitution includes important human rights protections, including the right to a fair trial, criminal due process, freedom of expression, freedom of association, and freedom of religion. The constitution forbids the death penalty and life imprisonment, and includes the right to be free from torture, servitude, and cruel or degrading treatment. However, problems relating to the criminal justice system, including a

proposed amnesty for past abuses, remained unresolved as of 2003. In addition, the status of minorities, including noncitizens, remains unclear in the constitution, as do social and economic rights and the right to be free from discrimination based on sexual orientation.

#### 41 HEALTH

A large number of health centers and hospitals were severely damaged or destroyed due to independence-related violence. The new nation also found itself lacking medical professionals, since the vast majority of health workers were Indonesian nationals who left the area. Post-independence, most health care has been provided by international NGOs under the general direction of the Division of Health Services (est. July 2000), which works in cooperation with the World Health Organization (WHO) to develop healthcare policies and coordinate services throughout the country.

In 2000, primary health care was provided by fifteen international NGOs, six local NGOs, twenty-three religious organizations, four military groups, and two private/business agencies. There were two hospitals operating in Dili and one in Baucau. In 2001, a program of District Health Plans included 64 community health centers, 88 health posts, and 117 mobile clinics. There is a laboratory in Dili. There were an estimated 2,000 health workers in the country, including 28 East Timorese doctors.

Though current figures are uncertain, estimates suggest that the 2002 life expectancy rate was 64.85 years (male, 62.64 years; female: 67.17 years). The same year, the fertility rate was estimated at 3.88 children born per woman. The birth rate was estimated at 28.07 births per 1,000 people. Infant mortality was estimated at 52 deaths per 1,000 live births, but this figure may be conservative since most births are not attended by skilled professionals. The most common causes of infant deaths have been infections, prematurity, and birth trauma. It was further estimated that 125 out of 1,000 children died before the age of five. In 2001, maternal mortality was estimated at 890 per 100,000 live births, with the most common cause of death being severe postpartum bleeding.

In 2000, the World Health Organization reported that about 3–4% of all children ages six months to five years were acutely malnourished and 20% were chronically malnourished. Intestinal parasitic infections affect about 80% of all children. Other common childhood illnesses include acute respiratory diseases, diarrheal conditions, malaria, and dengue fever. An immunization program was reinstated in March 2000, which included a special campaign that immunized 45,000 children against measles. In November and December 2000, a nationwide polio immunization campaign reached about 84% of the population.

Endemic diseases include malaria, leprosy, and lymphatic filariasis. Tuberculosis is a major problem as well, affecting over 8,000 people as of 2000 (31% under the age of 15 years). Sexually transmitted diseases are prevalent. The major causes of death are communicable diseases (60%), noncommunicable diseases, chronic diseases, traffic accidents, and others.

#### 42 HOUSING

Housing has been a serious problem since independence. Nearly 85,000 houses (about 70% of the nation's entire housing stock) were destroyed by the Indonesian military in September 1999. Though UNTAET and a number of international aid organizations responded quickly with temporary shelter kits, rebuilding of permanent housing has been slow and property ownership disputes have not been fully addressed.

Tens of thousands of residents fled the country during the violence and those who remained sought shelter in abandoned homes. As property owners returned to their homes, many found occupants claiming ownership and unwilling to leave. Some

occupants have demanded large payments from the owners for “house-sitting” or “improvements” made to the homes in the owner's absence. Through a proposed Land and Property Commission, it has been generally recognized that the original owners or tenants of a property have the right to eventual restitution and reoccupancy, but administration and enforcement of such rights has been a low priority as the government struggles to rebuild an entire nation and care for the emergency needs of its people.

As of 2003, it was difficult to estimate housing demand. Besides the vast number of those within the country who have been left homeless and/or with inadequate shelter and facilities, there were (as of the close of 2002) about 28,000 East Timorese refugees waiting to return from the West Timor territory and about 1,300 in Australia.

In urban areas such as Dili, Bacau, and Alieu, homes have been typically built from concrete. A majority of the population lives in rural areas with homes made from bamboo, wood, and thatch.

#### 43 EDUCATION

Over 90% of all school buildings were severely damaged or destroyed by the Indonesian military and in the exodus of Indonesians out of East Timor, the nation lost 20% of its primary school teachers and 80% of secondary teachers, most of whom are not expected to return. UNICEF and other international aid organizations responded fairly quickly, however, reestablishing classes for 420 of the country's 800 primary schools by December 1999 plus an additional 273 schools by April 2000.

In 2001, East Timor appointed its first minister of education. At the beginning of the 2001 academic year, there were about 240,000 primary and secondary school students enrolled in classes with over 700 primary schools, 100 junior secondary schools, 40 preschools, and 10 technical colleges. About 6,000 teachers were employed. The National University of East Timor (Universidade Nacional Timor Lorosae—UNTL) opened for classes on 27 November 2000 and had about 5,000 students in attendance in 2003. There are five faculties at the university: agriculture, political science, economics, education and teacher training, and engineering. All new students follow a course including human rights, ethics, philosophy of science, and Timorese history.

The education system includes six years of primary education and six years of secondary education. In 2000, the language of instruction was Indonesian, but this has been a subject of debate. Many are encouraging a switch to the national language of Tetum as a primary language with Portuguese and English as secondary languages. The new minister of education will need to address the issues of continued repairs and rebuilding of schools, providing adequate training for teachers, and establishing a standardized curriculum relevant to East Timorese students.

The literacy rate as of 2001 was 48% of the population ages 15 and over.

#### 44 LIBRARIES AND MUSEUMS

Prior to its closing in 1999, the Universitas Timor Timur (UNTIM) Library had a collection of 7,000 books. There were small branch libraries concentrating on politics and education in Dili, and on agriculture in Hera, each of which had a collection of some 400 books. The Polytechnic Library in Hera had a collection of 20,000 books. The Dili Public Library, in Vila-Verde, had 35,000 books, but the building was subsequently gutted and burned. As of 2002, it was proposed that a new National Library of East Timor would be established in the old Vila-Verde building, along with a National Archive. The new university, the Universidade Nacional Timor Lorosae (UNTL), was established in 2000 as an amalgamation of the UNTIM and the Polytechnic. The new UNTL library, housed in a former gymnasium, opened for student access on 21 January 2002.

With assistance from UNESCO and the World Bank, work on a National Museum and Culture Center of East Timor began in late 1999, but at the time there were no artifacts to display and no one to administer the museum. The Japan International Cooperation Agency (JICA) providing training for the establishment of the museum. Following the renovation of the first wing of the museum, an exhibition of Timorese textiles and artifacts from the former national museum were to be held.

#### 45 MEDIA

The new constitution provides for the freedom of speech and press and the government generally respects these rights in practice.

As of 2002, there were two daily newspapers, two weeklies, and several bulletin-type newspapers with sporadic publication and circulation. The government operates a radio station with nationwide reception and a television station that broadcasts only in Dili. There were six private radio stations in 2002 and a few community radio stations in development stages. In May 2002, legislation was passed to create a public broadcasting service.

Telecommunication services, which were cut off by the Indonesian government, are being restored through the help of Australian companies, one of which had established a cellular telephone network service. Another Australian company was installing a land telephone line network as of 2003. International communication authorities have approved an individual country code (670) for East Timor.

#### 46 ORGANIZATIONS

Student organizations in East Timor were influential in the nation's independence campaign and have continued to speak out for civil rights. The National Student Resistance of East Timor (Resistencia Nacional Dos Estudantes De Timor Leste) began in 1988 as an underground organization of Indonesian university students. The East Timor Students Solidarity Council originated in 1998 at the National University of East Timor. It has since set up regional groups throughout the country to represent the views of university and high school students and faculty. Catholic youth organizations have formed. There are also youth scouting groups active in the new nation.

The Red Cross Society was in formative stages as of 2003. There are a number of women's groups, covering political, health, and social issues, including Rede Feto Timor Lorosae, which serves as a network of about 15 individual groups.

The Cooperative Coffee Timor (CCT) is a federation of Timorese-owned organic coffee cooperatives that has received recent aid and developmental support from USAID. The Chamber of Commerce of East Timor and the National Association of East Timor Entrepreneurs are two major business associations in good standing, though in 2001 they were not officially endorsed by the new Division of Trade and Investment.

#### 47 TOURISM, TRAVEL, AND RECREATION

There are at least 25 hotels in Dili, with room prices ranging between \$30 and \$280. Budget accommodations elsewhere may be obtained for as little as \$8 a night. Meal prices range from \$3 to over \$20. One of Dili's two luxury hotels is an anchored cruise ship. Scuba diving and whale and dolphin watching are tourist attractions, in addition to the country's beaches. The northern coast features white sand beaches, while the southern coast is

rocky with occasional black sand beaches. There are elaborate intact coral reefs, populated by over 1,000 aquatic species. East Timor's colonial towns and rugged mountains are also popular with visitors.

Passports must be valid for six months beyond the intended date of departure. An Indonesian visa is required to cross the land border from east to west. As of 2003, the tourist industry was developing. However, a lack of infrastructure and tourist facilities, as well as a continued threat of militia activity in the west, combine to curtail some tourist activity.

#### 48 FAMOUS EAST TIMORESE

Martinho da Costa Lopes (1918–1991) was a Timorese priest with close ties to the Portuguese colonial government and an early advocate for the Timorese people. In 1996, exiled pro-independence leader Jose Ramos-Horta (b.1949) and Bishop Carlos Filipe Ximenes Belo (b.1948) shared the Nobel Peace Prize. Bishop Belo was the highest representative of the Roman Catholic Church in predominantly Catholic East Timor, and was a strong advocate of non-violent resistance. Ramos-Horta served as the UN representative for the East Timorese cause from 1976–89. Jose Alexandre "Xanana" Gusmao (b.1946) was a former FALINTIL (Armed Forces of National Liberation of East Timor) and FRETILIN (Revolutionary Front for an Independent East Timor) guerrilla leader and East Timor's first president. He was imprisoned by the Indonesian army in 1992 and released in 1999. He was elected president in April 2002.

#### 49 DEPENDENCIES

East Timor has no dependencies.

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**CAPITAL:** Suva

**FLAG:** The national flag of Fiji consists of the red, white, and blue Union Jack in the upper left corner of a light blue field, with the Fiji shield in the lower right corner.

**ANTHEM:** *God Bless Fiji.*

**MONETARY UNIT:** The Fiji dollar (F\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, 20, and 50 cents, and notes of 1, 2, 5, 10, and 20 Fiji dollars. F\$1 = US\$0.5181 (or US\$1 = F\$1.93) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is official, but some British weights and measures are still in use.

**HOLIDAYS:** New Year's Day, 1 January; Constitution Day, 24 July; Independence Day, 10 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, Dewali, and Milad an-Nabi.

**TIME:** 12 midnight = noon GMT.

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

Fiji, situated in the South Pacific about 4,450 km (2,765 mi) SW of Hawaii and 1,770 km (1,100 mi) N of New Zealand, comprises some 850 islands, of which only about 100 are inhabited. The island of Rotuma, added to Fiji in 1881, is geographically separate from the main archipelago and has an area of 44 sq km (17 sq mi). The total area (including Rotuma) is 18,270 sq km (7,054 sq mi). Comparatively, the area occupied by Fiji is slightly smaller than the state of New Jersey. Fiji (not including Rotuma) extends 595 km (370 mi) SE–NW and 454 km (282 mi) NE–SW. The largest islands are Viti Levu, with an area of 10,386 sq km (4,010 sq mi), and Vanua Levu, with 5,535 sq km (2,137 sq mi). Fiji's total coastline is 1,129 km (702 mi).

Fiji's capital city, Suva, is located on the island of Viti Levu.

### **<sup>2</sup>TOPOGRAPHY**

The larger Fiji islands are volcanic, with rugged peaks, and flatland where rivers have built deltas. Coral reefs surround the islands. Viti Levu's highest point, Tomanivi, is 1,323 m (4,340 ft); 28 other peaks are over 910 m (3,000 ft). Its main river, the Rewa, is navigable by small boats for 113 km (70 mi).

### **<sup>3</sup>CLIMATE**

Temperatures at sea level range from 20° to 29°C (68°–85°F); easterly trade winds blow during the greater part of the year. Annual rainfall is well distributed and averages 305 cm (120 in) in Suva. At sea level on the leeward sides of the islands there are well-defined wet and dry seasons, with a mean annual average of 178 cm (70 in) of rain.

The cyclone season, from November to April, brings storms that generally cause extensive property damage and loss of crops as well as numerous deaths.

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

The larger islands have forests on the windward side and grassland on the leeward slopes. Mangroves and coconut

plantations fringe the coasts. Among indigenous fauna are bats, rats, snakes, frogs, lizards, and many species of birds.

### **<sup>5</sup>ENVIRONMENT**

The main challenges to the environment in Fiji are deforestation, soil erosion, and pollution. Over the last 20 years or so, 30% of Fiji's forests have been eliminated by commercial interests. The rainfall pattern, the location of agricultural areas, and inadequate agricultural methods contribute to the loss of valuable soils. Fiji is also concerned about rising sea levels attributed to global warming caused by the burning of fossil fuels in the industrial world.

The land and water supply are polluted by pesticides and chemicals used in the sugar and fish processing industries. The nation has about 6.9 cu mi of water with roughly 60% used for farming purposes and 20% used for industrial activity. The nation's cities produce 0.1 million tons of solid waste per year.

Fiji's natural environment is protected by the National Trust, which under the 1981–85 development plan began to establish national parks to conserve the island's unspoiled landscape, reefs, and waters, as well as indigenous flora and fauna. As of 2001, four species of mammal, nine types of birds, six species of reptiles and one type of amphibian were considered endangered, as were 64 of Fiji's 1,600-plus plant species. Threatened species include the Fiji banded iguana and crested iguana, the Fiji petrel, the insular flying-fox, and the Samoan flying-fox. The bar-winged rail has become extinct.

### **<sup>6</sup>POPULATION**

The population of Fiji in 2003 was estimated by the United Nations at 839,000, which placed it as number 151 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 35% 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 0.98%, with the projected population for the year 2015 at 919,000. The population density in 2002 was 47 per sq km (121

per sq mi). About 70% of the population lives on the island of Viti Levu.

It was estimated by the Population Reference Bureau that 49% of the population lived in urban areas in 2001. The capital city, Suva, had a population of 196,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 2.6%.

## 7 MIGRATION

In the late 19th and early 20th centuries, about 50,000 Indian laborers arrived in the islands to work on sugar plantations. Most recent immigrants come from neighboring islands. There has been steady internal migration from rural to urban areas. There was a substantial increase in emigration by Indians in the immediate aftermath of the coup of May 1987. There are no restrictions on emigration, as 40,000 have done so since 1987. Most of these emigrants were professionals or Indo-Fijians. In 1996, it was estimated that Indians emigrated at a rate of between 4,000 and 5,000 a year. In 1999 the net emigration rate was -3.78 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The indigenous Fijian population is predominantly Melanesian, with a Polynesian admixture. In 1998, the population was estimated to be 51% indigenous Fijian, 44% Indian, and 5% European, other Pacific Islanders, overseas Chinese, and other.

## 9 LANGUAGES

English is the official language, but Fijian and Hindi are also used in Parliament. Fijian dialects belong to the Malayo-Polynesian language group; the Bau dialect is used throughout the archipelago except on Rotuma, where Rotuman is spoken. Hindustani (a local dialect of Hindi) is the lingua franca of the Indians of Fiji.

## 10 RELIGIONS

About 52% of Fijians are Christians, primarily Methodist (37%) and Roman Catholic (9%). Among Indian Fijians, 38% are Hindu, 8% Muslim (Sunni), and 2% other. The newly amended constitution (1998) provides for freedom of religion, and the government reportedly respects this right in practice. Confucianism is practiced by a portion of the Chinese community.

## 11 TRANSPORTATION

During the late 1970s, Fiji completed a new highway between Suva and Nadi and constructed 885 km (550 mi) of rural roads. As of 2002, Fiji had 3,440 km (2,138 mi) of main roads, of which 1,692 km (1,051 mi) were paved. Registered vehicles numbered 3,329 in 2001. A private rail system of about 597 km (371 mi) serves most of the sugar-producing areas. Major ports are Suva, Lautoka, and Levuka. In 2002, Fiji had six merchant ships in service, with a capacity of 11,870 GRT. Inland waterways consist of 203 km (126 mi), of which 122 km (76 mi) are navigable by motorized craft and 200-ton barges. There were 27 airports in 2001, but only three had paved runways. An international airport at Nadi serves regularly scheduled flights to neighboring Pacific islands, Australia, and New Zealand, via Air Pacific. Fiji Air provides domestic and charter service. In 2001, 612,700 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Voyagers from the east settled Fiji at least 2,500 years ago. Some of their descendants later moved on to settle the Polynesian islands to the west. The first known European contact came when the Dutch navigator Abel Tasman sighted the Fiji group in 1643.

English Captain James Cook visited it in 1774, and Charles Wilkes headed a US expedition there for three months in 1840.

European sandalwood traders, army deserters, and shipwreck survivors also landed on the islands during the first half of the 19th century, a period in which the chiefs of Bau rose to a dominant position. Protestant missionaries from Tonga arrived in 1835, and French Catholic priests in 1844. After a few chiefs had been converted, more and more Fijians embraced Christianity, usually in the form of Wesleyan Methodism.

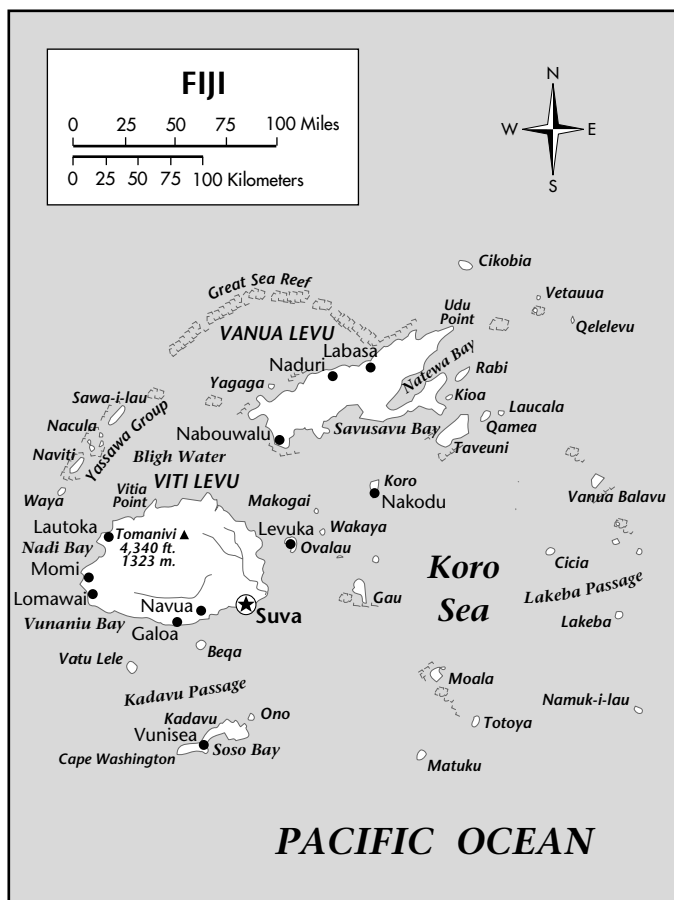
In the course of a civil war in the 1850s, Cakobau, the most powerful chief in Fiji, combined forces with the king of Tonga to become paramount chief of western Fiji. The growing presence of Europeans contributed to political and economic instability. In 1871, some 3000 Europeans supported Cakobau's claim to rule as king of all Fiji, but unrest continued. Cakobau's government appealed to Britain for assistance and, on 10 October 1874, Fijian chiefs signed a Deed of Cession making Fiji a British Crown Colony.

From 1879 to 1916, more than 60,000 indentured laborers from India arrived to work on European-owned sugar plantations, and by 1920 they had settled as free farmers. European settlers were granted elective representation in the Legislative Council in 1904, and Indians were admitted in 1929. Ethnic Fijian representation was based on traditional hierarchies until 1963, when the council was reconstituted; the franchise was extended to women, and direct election of Fijian members was provided for. In 1966, the council was enlarged and again reconstituted, and Fiji attained virtual internal self-government.

On 10 October 1970, Fiji became a sovereign and independent state within the Commonwealth of Nations, with Kamisese K. T. Mara, head of the Alliance Party, as prime minister. He and his majority party won elections in 1972, 1977, and 1982, but lost the April 1987 elections to a coalition of the Indian-based National Federation Party and the Labour Party. The new government was short-lived, however. Within a month, it was toppled by a military coup led by Lt. Col. Sitiveni Rabuka and aimed at restoring political leadership to ethnic Fijians. On 20 May thousands of rioting Fijians attacked Indians. Under a compromise reached the next day, the governor-general temporarily to head the government, assisted by an 18-member advisory council, including the coup leader and former Prime Minister Mara. Elections were to be held within six months, and the council was to propose constitutional revisions that would safeguard the political dominance of indigenous Fijians.

On 25 September 1987, however, Rabuka led a second coup. He subsequently suspended the constitution, dissolved the parliament, and declared Fiji a republic. The governor-general, Ratu Sir Penaia Ganilau, was appointed president of the republic, and Mara was reappointed prime minister. Full civilian rule returned in January 1990 when Rabuka gave up his position as minister of home affairs and returned to barracks as head of the armed forces.

The second coup in 1987 and the adoption of the 1990 constitution, which favored ethnic Fijian control of the government, led to heavy Indian emigration, especially among those Indians with sufficient capital to move. This emigration caused serious economic difficulties for Fiji, but it also ensured that the native Fijian population became the majority. In May of 1992 the Soqosoqo ni Vakavulewa ni Taukei (SVT) or the Fijian Political Party, led by now Major-General Rabuka, won 30 of the 37 seats reserved for ethnic Fijians. Rabuka formed a coalition government with the General Voters Party (GVP) and with the informal support of the Fijian Labour Party (FLP), and became prime minister. After President Ganilau's death in December 1993, the Council of Chiefs elected Ratu Sir Kamisese Mara as the new president in January 1994. Rabuka's government fell in November 1993 when the legislature defeated the government's



LOCATION: 15°43' to 21°2' S; 176°54' E to 178°28' W (not including Rotuma, which is at 12°30' S; 177°5' E). TERRITORIAL SEA LIMIT: 12 miles.

budget. New elections were held in February 1994. The SVT won 31 seats, and Rabuka was able to form a coalition government with the GVP. However, Rabuka's hold on power was tenuous as pressure mounted from within and outside the country for constitutional reform.

Beginning in 1995, a Constitutional Review Commission spent almost two years to develop a system that would avoid purely ethnic politics and, at the same time, take account of the concerns of the native Fijian community. Its recommendations were unanimously adopted by Parliament in July 1997. In 1999, parliamentary elections were held that resulted in a government led by Mahendra Chaudhry, leader of the Fiji Labour Party (FLP), who became the first Indian prime minister of Fiji.

On 19 May 2000, George Speight, a failed businessman and son of Sam Speight, an opposition member of Parliament, took Parliament by show of force and held Prime Minister Chaudhry and most of his multiracial cabinet hostage for 56 days. In exchange for the hostages' release, the military—which imposed martial law during the crisis—agreed to replace Chaudhry's government, grant an amnesty to the rebels taking part in the coup, and to abolish Fiji's multiracial constitution. One of Speight's demands was a new constitution that would only permit indigenous Fijians to hold the posts of prime minister and president. The coup resulted in widespread civil unrest and attacks against ethnic Indians, and caused a drop of 41% in tourism. Speight and 369 of his supporters were arrested in July 2000, and the military installed ethnic Fijian Laisenia Qarase as prime minister in a caretaker government. He was charged with

organizing Fiji's next general election and drawing up a new constitution. Fiji's Great Council of Chiefs appointed Ratu Josefa Iloilo—a former father-in-law of Speight's brother—president.

Eighteen political parties fielded 351 candidates for office in parliamentary elections held in August and September 2001. Qarase was elected prime minister as the head of his newly created party, the nationalist Soqoso Duavata ni Lewenivua Party (Fijian United Party or SDL), which took 32 out of 71 parliamentary seats. Qarase's campaign focused on indigenous Fijians' fears of political domination by ethnic Indians, who make up 44% of the population. Almost all ministers in Qarase's new government were indigenous Fijians. In February 2002, the Fijian Supreme Court ruled that Laisenia Qarase had to include ethnic-Indian members of the Fiji Labour Party in his cabinet.

Speight won a seat in Parliament while facing treason charges in court, but was later denied parliamentary status. He was originally sentenced to death for treason in February 2002, but the sentence was commuted to life imprisonment.

As of January 2003, more than 14,000 ethnic Indians left the country since the May 2000 coup, mainly professionals and skilled workers.

### 13 GOVERNMENT

Before December 1987, the head of state was the British monarch, as represented by a governor-general. The cabinet, responsible to the parliament of Fiji, consisted of a prime minister and ministers appointed by the governor-general on the former's advice. Parliament consisted of an elected house of representatives and an appointive senate. The electoral process was distinctive in establishing communal, or ethnic rolls, in which only members of a specified group might vote, versus national rolls in which anyone could vote. The senate consisted of 22 members: eight nominated by the council of chiefs, a traditional body that had veto power over bills passed by the house involving native Fijians' customs or land rights; seven by the prime minister; six by the leader of the opposition; and one by the Rotuman Council.

The new post-coup constitution went into effect in July 1990. It established Fiji as a sovereign, democratic republic with a bicameral legislature. Fiji's president was to be appointed to a five-year term by the Great Council of Chiefs, which would also nominate 24 Fijians to the 34-member senate. Nine seats were guaranteed to Indians and other races, and one to Rotuma. The senate would have veto power over legislation affecting Fijians. The 71-member house of representatives was to be elected every five years by universal suffrage under the communal system. In addition to stipulating that the office of the prime minister must be held by an ethnic Fijian, the 1990 constitution also guaranteed a majority of seats to the Fijian community. This constitution prohibited cross-race voting; that is, Fijians could only vote for Fijians and Indians only for Indians. It provided for an independent judiciary.

The 1997 constitution specifies that the president, who is head of state, must always be a native Fijian. It also gives considerable recognition to the Great Council of Chiefs, which not only nominates and participates in electing the president, but also maintains its responsibility for matters relating to native Fijians. Parliament consists of two houses. The lower, where all legislation must originate, has 71 members. Of these, 46 are communal: 23 for Fijians, 19 for Indians, 3 for general electors, and 1 for Rotumans. The remaining 25 are "open" seats contested on a common roll basis without any reference to ethnicity, either for the voters or for the candidates.

The president appoints as prime minister the member of parliament who commands majority support in the lower house, or house of representatives. The constitution also provides for mandatory power sharing in cabinet. Any party holding more than eight lower house seats is invited to join the cabinet in

proportion to the number of seats it holds. The upper house or senate consists of 32 appointed members: 14 nominated by the Great Council of Chiefs, 9 by the prime minister, 8 by the leader of the opposition, and 1 by the Council of Rotuma. Parliament serves for a maximum of four years after a general election though the president on the advice of the prime minister can dissolve it.

In the May 1999 election, the first held under this constitution, the Fiji Labour Party won a stunning victory, gaining 37 seats and an absolute majority of the house of representatives. Rabuka's SVT took only eight seats, and the once powerful NFP won no seats at all. Mahendra Chaudhry, leader of the FLP, became the first Indian prime minister of Fiji. The 1999 election was the first test of the amended constitution and introduced open voting for the first time at the national level.

In the August 2001 election, Prime Minister Laisenia Qarase's nationalist Soqoso Duavata ni Lewenivuaana Party (Fijian United Party or SDL) took 32 seats in the house of representatives, and the FLP took 27. In March 2002, Qarase was ordered by the supreme court to allow for 8 seats in the senate from the opposition FLP, as stipulated by the constitution, 4 more than he had originally awarded it.

## 14 POLITICAL PARTIES

Fiji's political parties were in a state of flux after the FLP's unexpected victory in 1999. FLP is a multiethnic party, though some see it as Indian-dominated. After SVT's disappointing showing, Sitiveni Rabuka resigned as leader, and this Fijian-based party was headed by Ratu Inoke Kabuabola, leader of the opposition. It is currently headed by Felipe Bole. The Fijian Association Party, also focused on ethnic interests, is led by a woman, Adi Kuini Speed. It is not clear if the Indian-based National Federation Party will ever come back from its stunning defeat. After the August 2001 parliamentary elections, the NFP, for nearly 40 years the dominant Indian party, was entirely eliminated, as was the SVT. The FLP, led by Mahendra Chaudhry, has a support base of trade unions, workers and farmers, providing it with an efficient, grassroots campaigning structure. The Soqoso Duavata ni Lewenivuaana Party (Fijian United Party or SDL) was created by caretaker Prime Minister Laisenia Qarase in an attempt to consolidate his support and unite the Fijian vote. The SDL has been accused of not broadening its appeal to Indian voters, and some have accused it of racism.

## 15 LOCAL GOVERNMENT

Local government is organized under provincial and urban councils. Fiji is divided into 14 provinces, each with its own council. Some members are appointed, but each council has an elected majority. The councils have powers to make bylaws and to draw up their own budgets, subject to central government approval. Suva and Lautoka have city councils, Nadi a town council, and certain other urban areas are administered by township boards. A few members of urban councils are appointed, but most members are elected on a common roll of taxpayers and residents.

## 16 JUDICIAL SYSTEM

The 1990 constitution reorganized the judicial system, but it retains elements of the British system. The courts include the Magistrate Courts, a High Court, the Court of Appeals, and the Supreme Court. There are no special courts, and the military courts try only members of the armed forces.

The Magistrate Courts are courts of first instance that try most cases. The High Court hears more serious cases in first instance and hears appeals from decisions in the Magistrate Courts. The appellate courts, including the High Court, may engage in constitutional review. The High Court has jurisdiction to review violations of individual rights provided by the Constitution.

The 1990 Constitution makes the judiciary independent of the other branches of government. Due process rights are similar to those in English common law.

Dependents have the right to a public trial and to counsel. A public legal adviser assists indigent persons in family law cases. Detainees must be brought before a court within 24 to 48 hours. Incommunicado and arbitrary detention are illegal. The criminal law permits corporal punishment as a penalty for certain criminal acts, but this provision is seldom invoked.

## 17 ARMED FORCES

Fiji's active armed forces in 2002 numbered 3,500 backed up by some 6,000 reserves. The army totalled 3,200 with 300 in the navy. Of Fiji's seven infantry battalions, two are deployed abroad in Egypt (MFO) and Lebanon (UNIFIL), and observers are stationed in Iraq and Papua New Guinea. Fiji spent \$35 million in 2000, or 2.2% of GDP, on defense.

## 18 INTERNATIONAL COOPERATION

Since joining the UN on 13 October 1970, Fiji has been a leading spokesman for Pacific island states and has contributed contingents to UN peacekeeping forces in Lebanon (1978) and the Sinai (1982). In September 2002, Prime Minister Laisenia Qarase reaffirmed Fiji's continued willingness to participate in UN peacekeeping operations. Fiji belongs to ESCAP and all UN nonregional specialized agencies except IAEA. A member of the WTO, Fiji also is a member of the Asian Development Bank, G-77, and the South Pacific Commission and Forum. Its membership in the Commonwealth of Nations was said to have "lapsed," according to a meeting of Commonwealth heads of government held shortly after the September 1987 coup.

On 10 December 1982, Fiji became the first nation to ratify the Law of the Sea. Fiji's delegates had taken a prominent role in framing the document.

## 19 ECONOMY

Agriculture, mining and fishing have dominated the economy in the past, but manufacturing and tourism are becoming progressively more important in Fiji. The first five years after independence (1970-75) were years of high growth for Fiji, when growth averaged 5.9%, driven by primary commodities. In the next five years, growth continued but at a slower rate—about 3.5% per year. In 1980-86, Fiji suffered the effects of high inflation, especially in energy prices. It also endured three recessions. In 1986, growth rebounded, with GDP increasing 8.1%. This was immediately stopped by the 1987 coup. From 1987 to 1996 the economy grew at average annual rate of 2.5%; counting from independence to 1996, the average annual growth rate for GDP was 3.3%. In 1996, the economy grew 3%, but then, caught in the Asian financial crisis, it declined 3.9% in 1997 and grew at only 1.4% in 1998. 1999 saw a burst of recovery, as GDP shot up 9.7% (7.8% in real terms), only to be cut short, as happened in 1987, by a coup that sent the economy into recession, registers a 2.85% fall in GDP for 2000. Amid continued high political tensions the GDP increased in real terms only 1% in 2001, an improvement attributed mainly to some recovery in tourism.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Fiji's gross domestic product (GDP) was estimated at \$4.4 billion. The per capita GDP was estimated at \$5,200. The average inflation rate in 2000 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 17% of GDP, industry 25%, and services 58%. Foreign aid receipts



amounted to about \$32 per capita and accounted for approximately 2% of the gross national income (GNI). It was estimated that in 1991 about 26% of the population had incomes below the poverty line.

## 21 LABOR

In 1999, the entire labor force in Fiji was 137,000 workers. Subsistence agriculture and farming accounted for nearly 75% of the workforce in 2001. The unemployment rate was about 7.6% in 1999.

The law protects the right of workers to unionize with some restrictions. All unions must be registered, but they are not controlled by the government. Wages and conditions of employment are regulated by agreements between trade unions and employers. The only central labor organization is the Fiji Trade Union Congress (FTUC). Workers have the right to collective bargain and strike, although a union may not strike in connection with a union recognition dispute. About 55% of the paid workforce was unionized as of 2002.

The normal workweek ranges from 40 to 48 hours but there is no statutory regulated workweek. There is no national minimum wage. The enforcement of child labor regulations is not effective. Health and safety standards are not closely monitored.

## 22 AGRICULTURE

In 2001, agriculture comprised about 30% of Fiji's export earnings. More than three-quarters of all households engage in agriculture, livestock production, forestry, or fishing. A total of 285,000 ha (704,000 acres), or over 15.6% of Fiji's area, was used for crop production in 1998. Sugarcane production was 4,398,000 tons in 1999. In 2001, sugar exports accounted for about 21% (\$112.2 million) of total exports and 70% of agricultural exports. Fijians retain legal ownership of the lands, but Indians farm it and produce about 90% of Fiji's sugar. In 1995, the average sugarcane farm was four ha (9.9 acres), produced 183 tons of cane, and made F\$9.810. Cane is processed into raw sugar and molasses by the Fiji Sugar Corporation, which is 68% owned by the government. The sugar industry is vital to the national economy; as such, the government plays a leading role in all aspects of its production and sale.

Production of copra and coconuts in 1999 was 12,000 tons and 209,000 tons, respectively; paddy rice output was 18,000 tons. Corn, tobacco, cocoa, ginger, pineapples, bananas, watermelons, and other fruits and vegetables are also grown.

## 23 ANIMAL HUSBANDRY

Beef production was some 8,900 tons in 2001; pork, 3,870 tons; and goat meat, 950 tons. A breed of sheep highly adapted to the tropics was introduced in 1980. Fiji's poultry production was 8,420 tons in 2001, and egg production was 2,668 tons that same year.

## 24 FISHING

The fishing industry has expanded in recent years, and a new cannery has increased tuna exports. The fish catch in 2000 was estimated at 36,600 tons, over 20% of which was tuna. Barracuda, snapper, grouper, mackerel, and mullet are other principal species caught. In the early 1980s, several new fish farms began to produce carp, prawns, oysters, eels, and mussels. In 2000, prepared and preserved fish exports were valued at \$34.2 million.

## 25 FORESTRY

Some 45% of the land area is forested, and 253,000 ha (625,000 acres) are suitable for commercial use. Large-scale planting of pines under the 1986-90 development plan involved reforestation of 50,000 ha (120,000 acres). Output of logs in 2000 totaled 486,000 cu m (17,156,000 cu ft). Exports of sawn timber and

other wood products were valued at \$22.2 million in 2000. The first exports of pine logs started in 1980.

## 26 MINING

The mining sector of Fiji contributed 3% to the GDP, virtually all of it from gold, the only metallic mineral recovered in Fiji in 2001. Gold was the third-leading export commodity in 2002, generating 6% of Fiji's foreign exchange. The sole gold producer, Emperor Mines Ltd., was the largest private employer, with more than 1,600 employees. Gold has been mined and exported continuously since 1933. The country was also richly endowed in deposits of copper, lead, and zinc. Gold and silver ranked fourth and fifth among Fiji's top industries in 2002, although no figures were available for the year. Production of gold rose steadily in the mid-1990s, reaching 4,671 kg in 1997; it has since remained static, with the 2001 total at 3,858. Hydraulic cement production was 95,000 tons in 2001. In 2001, Fiji also produced crushed and dimension stone, sand and gravel, and sand for cement manufacture. No silver was mined in 2001; 1,475 kg was mined in 2000 and 2,594 in 1997. In addition to resources at existing sites, 930 million tons of copper (in Viti Levu) and gold reserves have been reported, and prospecting continued for oil and phosphates, and at base-metal sulfide deposits, disseminated porphyry copper deposits, epithermal precious-metal deposits, residual bauxite deposits, and manganese and heavy-mineral sand deposits that have previously been identified and evaluated. None has been shown to have sufficient tonnage to be economically viable. Ownership of minerals was vested in the state, which granted mining and prospecting rights.

## 27 ENERGY AND POWER

The Fiji Electricity Authority, set up in 1966, is responsible for the generation and distribution of electricity, which provides only about 10% of energy consumed. Sugar mills generate their own power, as do hotels and other establishments outside town limits. To lessen dependence on imported oil, the Monasavu hydroelectric project was completed in 1984, with a capacity of 80 MW. Total installed capacity in 2001 was 199 MW; output in 2000 was 515 million kWh, of which 81.9% came from hydroelectric power and 18.1% from fossil fuels. Consumption of electricity in 2000 was 479 million kWh. Exploration for oil and natural gas has taken place, but has been unsuccessful. In the 1990s, the government formed a state-owned petroleum company, Finapeco, to act as the exclusive petroleum importer to Fiji. Finapeco is also a supplier of petroleum to smaller countries in the region (e.g., Kiribati, Tonga, and Tuvalu).

## 28 INDUSTRY

Fiji's industry is based primarily on processing of agricultural products, mainly sugarcane and coconut, and on mining and processing of gold and silver. Other major product groups are processed foods, and garments. In 2001 sugar production fell 14% to 293,000 cubic tons, well short of previous norms of close to 350,000 cubic tons. The government ascribes problems with sugar production to expiring land leases, poor mill performance, high incidence of cane burning, and cane transportation problems. Years of underinvestment in farms, sugar mills and power, water, and transportation infrastructure have resulted in declining quality as well as quantity. In February 2003 the Japanese rejected a shipment of Fiji sugar because of poor quality.

The gold industry suffered due to low world market prices (below \$300 oz.) prevailing from late 1998 to mid-2002, but faces better prospects in the sharp rise to over \$370 oz. in early 2003. Gold production is concentrated in the 66-year-old Vatukoula mine operated by Emperor Mines, which calculates that the mine will last another 10 or 15 year.

The garment industry in Fiji began in 1988, and in 2002 produced a record value of about \$150 million. In 1996, there

were at least 68 garment manufacturing factories operating in tax-free zones, earning \$141 million. About a dozen factories were closed in 2001, with a loss of 5000 to 6000 jobs, but other operations were expanding. Garment industry exports, at \$143 million for 2001, were down, however, due to disruptions in relations with customers from trade sanctions.

Overall, the value of merchandise trade declined about 9% in 2001, and is not expected to surpass the \$557 million of 1997 or even the \$532 million of 1999 until 2003. Tourism receipts were \$228.9 million in 2001, an improvement on 2000, but still constrained by post-coup political uncertainties. Expensive power, lack of trained labor, and the limited local market have also inhibited industrial production. Overall, the value of manufacturing in Fiji, which had declined 6.2% in 2000, increased an estimated 11.5% in 2001, but is projected, by the IMF, to have increased only 1.5% in 2002, with non-sugar manufacturing down .9% in value.

## 29 SCIENCE AND TECHNOLOGY

The University of the South Pacific at Suva, founded in 1968, has schools of agriculture and pure and applied science. Other institutions of higher education are the Fiji College of Agriculture at Nausori, and the Fiji Institute of Technology and the Fiji School of Medicine, both at Suva. The major learned societies are the Fiji Society, concerned with subjects of historic and scientific interest to Fiji and other Pacific islands, and the Fiji Medical Association, both in Suva.

## 30 DOMESTIC TRADE

Fiji has several large trading corporations and hundreds of small traders. The corporations own retail stores, interisland ships, plantations, hotels, travel services, copra-crushing mills, and breweries. Small enterprises range from a single tailor or shopkeeper to larger family businesses, most of which are operated by Indians or Chinese.

Businesses are normally open from 8:00 AM to 1 PM and from 2 to 4:30 PM on weekdays, and from 8 or 8:30 AM to 1 PM on Saturdays. Retail outlets are generally open from Monday through Friday, with half a day on Saturday. Most non-essential services and retail establishments are closed on Sundays. Though most major businesses and retail enterprises accept credit cards and travelers checks, a number of smaller, local businesses and shops operate on cash only.

## 31 FOREIGN TRADE

Like most developing countries that export primarily basic commodities—which are subject to wide market price fluctuations—and import high-valued manufactured products, Fiji has traditionally run a merchandise trade deficit. The years of 1995 and 1996 saw unprecedented trade surpluses while the 1998 merchandise trade deficit was \$263 million. In 2000, however, the country reversed again to a trade surplus, this time totaling \$227 million.

Clothing production dominates Fiji's export commodities, with over a third of export revenues tied to the apparel trade (33%). Sugar and honey are in second place in export sales (24%). Other exports include fish (7.2%) and gold (7.0%). Most of Fiji's exports go to Australia, the United Kingdom, and New Zealand.

In 1994, Fiji's imports were distributed among the following categories:

Consumer goods	13.9%
Food	14.8%
Fuels	11.2%
Industrial supplies	28.1%
Machinery	12.3%
Transportation	18.6%
Other	1.1%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Australia	212	359	-147
United States	102	38	64
United Kingdom	99	12	87
Japan	29	40	-11
New Zealand	27	121	-94
Korea	9	15	-6
China (inc. Hong Kong)	8	34	-26
Malaysia	8	19	-11
Singapore	1	53	-52
Thailand	n.a.	27	n.a.

## 32 BALANCE OF PAYMENTS

Fiji has traditionally had an annual trade deficit and an annual deficit on current accounts. Long-term capital inflows, both public and private, generally cover the deficits; however in 1991, the trade deficit was \$37 million, down from \$84 million in 1990. By 1992, the current account balance registered a surplus (as in 1989), due to increased earnings from exported sugar cane and growing tourism. The next year, however, deficits returned, but by 1996, the government was again posting a surplus. In 1997, Fiji just about broke even, but the 1998 figure reported a current account deficit equal to 2.5% of the GDP. A banking collapse due to mismanagement and corruption in the National Bank of Fiji severely damaged the financial account that year.

In addition to sugar exports, strong garment exports and agricultural exports other than sugar were expected to improve the balance of payments situation in the early 2000s.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Fiji's exports was \$572 million while imports totaled \$833 million resulting in a trade deficit of \$261 million.

The International Monetary Fund (IMF) reports that in 1999 Fiji had exports of goods totaling \$538 million and imports totaling \$653 million. The services credit totaled \$525 million and debit \$390 million. The following table summarizes Fiji's balance of payments as reported by the IMF for 1999 in millions of US dollars.

<b>Current Account</b>	<b>13</b>
Balance on goods	-116
Balance on services	135
Balance on income	-36
Current transfers	29
<b>Capital Account</b>	<b>14</b>
<b>Financial Account</b>	<b>-104</b>
Direct investment abroad	-53
Direct investment in Fiji	-33
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-62
Other investment liabilities	44
<b>Net Errors and Omissions</b>	<b>33</b>
<b>Reserves and Related Items</b>	<b>45</b>

## 33 BANKING AND SECURITIES

The Reserve Bank of Fiji is the central bank, (formerly the Central Monetary Authority), created in 1983 to replace the currency board; the Fiji Development Bank is the main development finance agency. Commercial banking facilities consist of the National Bank of Fiji (NBF) and branches of several foreign banks. As of 2000, there were six commercial banks in Fiji. The NBF enjoys the status of a commercial bank, but it does little business. The troubled NBF is undergoing a process of restructuring following revelations of a high level of non-performing loans. The government had to spend upwards of \$105 million to keep the bank operating. Other banks include

two Australian banks, one Indian bank, one Pakistani bank, and the Bank of Hawaii. The government-owned Fiji Development Bank provides financing for development projects.

Growth in money supply has fluctuated widely in response to trends in foreign trade, affecting the level of reserves. The government tends to follow a cautious monetary policy, which has concentrated on maintaining price stability and on managing high levels of liquidity in the commercial banking system resulting from low levels of private investment. Total assets of financial institutions in 1997 reached \$2.3 billion, an increase of only 0.7% from 1996. The government devalued the currency by 20% in January 1998 due to economic woes. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$272.7 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$644.4 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 0.79%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 1.75%.

The Suva Stock Exchange operates in Suva, Fiji.

### 34 INSURANCE

In 1986, there were 11 insurance companies, five of which were life insurance firms. Premiums were divided almost equally between life (49%) and nonlife (51%) insurance. Third-party motor liability coverage is compulsory. Some of the companies listed as doing business in Fiji in 1995 were Dominion Insurance, Fiji Reinsurance Corp., Guardian Royal Exchange Assurance, National Insurance Co., the New India Assurance Co., Panpacific Insurance Com., and Queensland Insurance.

### 35 PUBLIC FINANCE

From 1985–96, Fiji suffered a crisis in both private and public investment. Total investment—both public and private—stood at 21.3% of GDP in 1985 and had dropped to 15.8% in 1994. Investment in public enterprises rose for the same period, however, from 3.2% of GDP in 1985 to 6.5% in 1994. The fiscal position of the government also worsened after 1996 due to the collapse of the National Bank of Fiji. During that time, the public deficit increased to 6.5% of GDP, but fell to 2.4% of GDP in 1998.

The US Central Intelligence Agency (CIA) estimates that in 2000 Fiji's central government took in revenues of approximately \$427.9 million and had expenditures of \$531.4 million. Overall, the government registered a deficit of approximately \$103.5 million. External debt totaled \$162.7 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%	428
Tax revenue	85.2%	365
Non-tax revenue	13.0%	55
Capital revenue	0.9%	4
Grants	0.9%	4
EXPENDITURES	100.0%	531
General public services	26.0%	138
Defense	5.8%	31
Public order and safety	5.0%	26
Education	18.2%	97
Health	8.7%	46
Social security	4.1%	22
Housing and community amenities	2.9%	15
Recreation, cultural, and religious affairs	0.9%	5
Economic affairs and services	18.9%	101
Interest payments	9.5%	51

### 36 TAXATION

Local councils levy taxes to meet their own expenses. National taxes include a nonresident dividend withholding tax (30%), an interest withholding tax (15%), and a dividend tax. In 2003 a full dividend exemption system is to be introduced to prevent double taxation of dividends. For a resident with taxable income over F\$15,000, normal tax is F\$2,300 plus 32% of the excess. For a nonresident with taxable income over F\$15,000, normal tax is F\$3,925 plus 32% of the excess. The normal corporate tax rate in 2001 was 32% on chargeable resident income and 45% on profits of branches of foreign companies. Other taxes include a land sales tax, an excise tax, and a VAT of 12.5%. A plan to reduce the top personal and corporate rate to 30% in 2003 was deferred by the government due to the widening budget deficit, which in 2001, was at 6.5% of GDP in 2001.

### 37 CUSTOMS AND DUTIES

About one-third of Fiji's revenues derive from customs duties. Tariffs range from 0% to 35% on most goods except motor vehicles, alcohol and tobacco, and chemical products, for which the tariffs imposed can be up to 60%, 60%, and 70%, respectively. Duties are levied on the cost, insurance, and freight (CIF) value of the goods.

There are several tax-free zones (TFZs) in Fiji, and 133 tax-free factories as of 1996. TFZs offer a 13-year tax holiday, duty exemptions on capital goods and raw materials, and free repatriation of profits.

### 38 FOREIGN INVESTMENT

The development of existing industries has been made possible largely by foreign investment. Fiji continues to promote overseas capital investment through the Fiji Trade and Investment Board because it requires foreign goods and services to meet many of its needs, including domestic employment. Tax and tariff concessions are offered to approved new industries, and special incentives apply to fuel-efficient or export-oriented enterprises. However, since the coup against the Chaudhry government in May 2000 political tensions have seriously hampered Fiji's prospects for attracting foreign investment in two major ways: through concerns over nativist restrictions and labor problems, and through concerns that trade sanction could be imposed on the defiantly unconstitutional government.

### 39 ECONOMIC DEVELOPMENT

Under the development plan for 1986 to 1990, the government emphasized diversification of industries and expansion of tourism, and set the goal for real GDP growth at 5% annually. Four key areas that were supported for future economic growth were domestic and foreign development in the sugar sector; trade liberalization in major export markets; the resolution of industrial disputes; and the replacement of middle-level skills lost to emigration caused by political turmoil. During the 1990s, Fiji attempted to diversify its economy away from the sugarcane industry by focusing on the garment manufacturing and exporting trade. Bad weather conditions and political turmoil conspire to hinder economic development in the future.

### 40 SOCIAL DEVELOPMENT

Employed workers are eligible for retirement, disability, and survivor benefits, to which they contribute 7% of their wages, matched by their employers. A lump sum is payable to citizens moving out of the country, and to female employees after marriage. Employers also pay for workmen's compensation, covering both temporary and permanent disability benefits.

The constitution provides women with equal rights and includes affirmative action provisions for the disadvantaged. Amendments that took effect in 1998 address legal

discrimination against women in the areas of spousal and offspring rights. Fijian women primarily fulfill traditional roles, although some do attain leadership roles in the public and private sectors. Garment workers, who are mainly female, are subject to a lower minimum wage than that stipulated for other workers. Domestic abuse appears to be on the increase partially due to economic hardship, and an active women's rights movement is addressing the issue.

The government overtly promotes the rights of ethnic Fijians over that of other ethnic groups. Ethnic Fijians predominate in senior government positions and in the ownership of land. Although Indo-Fijians may be found in senior positions in the private sector, few are in government. Indo-Fijians are sometimes subject to discrimination. Human rights abuses are occasionally reported. However, Fiji's major human problem remains discrimination against ethnic minorities.

#### 41 HEALTH

Fiji's health standards are relatively high. In 1986, there were 385 doctors, 67 dentists, and 1,572 nurses. Medical facilities included three main hospitals and three specialized hospitals; a total of 27 hospitals had 1,743 beds. In 1997 there were 0.5 physicians, 2 nurses, and 0.04 dentists per 1,000 people. Cardiovascular disease and cancer have become the top two causes of death in hospitals during the last few years. The increasing mortality has been attributed to hypertension and diabetes mellitus. Diabetes, once relatively unknown in the Fijian community, increased tenfold among Fijian urban dwellers between 1967 and 1980. A cancer survey conducted in 1989 showed extremely high dietary intakes of fat and cholesterol.

The fertility rate was an estimated 2.8 in 2002. The infant mortality rate was estimated at 13.7 per 1,000 live births and estimated average life expectancy was 68.5 years. The estimated overall death was 5.7 per 1,000 people and the birth rate was 23.2 per 1,000. Between 1991 and 1994, 96% of children were immunized against measles. Venereal diseases have increased in recent years and infantile diarrhea persists. In 1996, seven AIDS cases were reported. As of 2000 the number of people living with HIV/AIDS was estimated at 85.

#### 42 HOUSING

According to government estimates, Fiji requires more than 4,200 new houses each year to maintain adequate housing standards. Natural disasters such as cyclones and tropical storms have caused problems in creating and maintaining adequate housing stock.

The Fiji Housing Authority provides accommodations for urban workers and extends credit for houses it builds and sells. At last estimate, housing stock exceeded 126,000 units, of which 30% were made of corrugated iron or tin; 30% were concrete; more than 25% were wood; and nearly 10% were bure. The water supply was mostly either individually piped (53%), communally piped (20%), or obtained from wells (13%). Roughly 32% of all dwellings had private flush toilets while 42% used latrines, and 49% had electricity.

#### 43 EDUCATION

Education is not compulsory but is free through the first eight years. There are government schools as well as private schools operated by individual groups or by missions under government supervision. In 1990, public expenditure on education was 4.6% of GDP. In the mid-1990s there were 4,644 teachers and 145,630 pupils in 693 primary schools. Secondary schools had 3,631 teachers and 66,890 students. Of these, 6,653 students were enrolled in technical and vocational schools. The pupil-teacher ratio at the primary level was 23 to 1 in 1999. In the same year, 99% of primary-school-age children were enrolled in school. The University of the South Pacific, which opened in Suva in 1968,

had more than 3,600 students in the mid-1990s. Its students are drawn from several Pacific island states. All third-level institutions and universities had approximately 8,000 students and a faculty staff nearing 300 personnel. Adult illiteracy rates for the year 2000 were estimated at 7.1% (males, 5.0%; females, 9.1%).

#### 44 LIBRARIES AND MUSEUMS

The Ministry of Education runs the Library Service of Fiji in Suva and provides public, special, and school services through three mobile libraries and 33 government libraries with a total collection of over 960,000 volumes. Suva maintains its own public library of 77,000 volumes, most of which is a children's collection. The library at the University of the South Pacific contains 750,000 volumes. There are several libraries associated with theological institutions and colonial cultural centers. The Fiji Museum, established at Suva in 1906, has a collection of Fijian artifacts and documents Fijian oral traditions.

#### 45 MEDIA

Suva and its surrounding area are served by an automatic telephone exchange that had 80,901 mainline telephones in 1999. In 1997, there were 5,200 cellular phones in use nationwide. Fiji is a link in the world Commonwealth cable system and has radiotelephone circuits to other Pacific territories.

The Fiji Broadcasting Commission offers programs in Fijian, English, and Hindustani over Radio Fiji on three channels. In 1998, there were 13 AM and 40 FM radio stations. As of 2001, there is one television broadcast station, Fiji One TV, which is owned by private and government interests. In 1999, Fiji had 541,476 radios and 88,100 television sets nationwide. In 2000, two Internet service providers were serving 7,500 subscribers.

The two daily newspapers, both published at Suva, are the English-language *Fiji Times* (with an estimated circulation of 34,000 in 2002) and *Fiji Daily Post* (9,000). The Fijian *Nai Lalakai* and the Hindi *Shanti Dut* (1995 circulations, respectively, 9,600 and 10,750) are two of the most widely read periodicals.

Freedom of speech and press are said to be generally respected by the government, and political figures and other citizens can speak out against the government freely.

#### 46 ORGANIZATIONS

The main chamber of commerce is located in Suva. Two organizations representing the interests of employers and business owners are the Fiji Employers' Federation and the Fiji National Training Council. Unions and professional associations exist for several occupations, including manufacturing industries, sugar cane growers, teachers, and optometrists. The Fiji Trades Union Congress serves as a larger advocate for worker's rights. At last estimate there were more than 1,200 registered cooperatives.

Youth organizations include the Fiji Youth and Student League, the Fiji Scout Association, and Fiji Girl Guides. National women's organizations include The National Council of Women and the Fiji Women's Rights Movement.

#### 47 TOURISM, TRAVEL, AND RECREATION

Popular tourist attractions are the beach resorts and traditional Fijian villages. Visitors with valid passports are granted tourist visas renewable for up to six months. Spectator sports include soccer, cricket, rugby and basketball, and Fiji has excellent golf facilities.

In 2000, there were 294,070 tourist arrivals, nearly 60% from East Asia and the Pacific region. That year gross receipts from tourism amounted to \$195 million. There were 5,283 rooms in hotels and other establishments with 13,463 beds.

In 2002, the US State Department estimated the cost of staying in Suva at \$174 per day and in Nadi at \$160 per day.

#### 48 FAMOUS FIJIANS

The best-known Fijians are Ratu Sir Lala Sukuna (d.1958), the first speaker of the Legislative Council in 1954; Ratu Sir George Cakobau (1911–89), the first Fijian to be governor-general; and Ratu Sir Kamisese K. T. Mara (b.1922), elected prime minister in 1970 and president in 1994.

#### 49 DEPENDENCIES

Fiji has no territories or colonies.

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# FRENCH PACIFIC DEPENDENCIES

## FRENCH POLYNESIA

The overseas territory of French Polynesia (Polynésie Française) in the South Pacific Ocean includes five island groups. The Society Islands (Îles de la Société) were discovered by the British in 1767 and named after the Royal Society, are the most important. They include Tahiti (at 17° 40' s and about 149° 20' w), the largest French Polynesian island with an area of 1,042 sq km (402 sq mi); Moorea; and Raiatea. The French established a protectorate in 1844 and made the islands a colony in 1880. The Marquesas Islands (Îles Marquises, between 8° and 11° s and 138° and 141° w), about 1,500 km (930 mi) NE of Tahiti, were discovered by Spaniards in 1595 and annexed by France in 1842. The Tuamotu Islands, about 480 km (300 mi) s and sw of the Marquesas and consisting of 78 islands scattered over an area of 800 sq km (310 sq mi), were discovered by Spaniards in 1606 and annexed by France in 1881. The Gambier Islands, se of the Tuamotus, were discovered by the British in 1797 and annexed by France in 1881. Three of the islands, Mangareva, Taravai, and Akamaru, are inhabited. The Tubuai or Austral Islands (Îles Australes), south of the Society Islands, were discovered in 1777 by James Cook and annexed by France in 1880. Clipperton Island (10° 18' N and 109° 12' w), an uninhabited atoll sw of Mexico and about 2,900 km (1,800 mi) west of Panama, was claimed by France in 1858 and given up by Mexico, which also had claimed it, in 1932. In 1979, it was placed under direct control of the French government. Total area of the territory is between 3,600 and 4,200 sq km (1,400 and 1,600 sq mi).

The estimated mid-2002 population was 257,847, of whom about 78% were Polynesian, 12% Chinese, and 10% European. About 55% of the population is Protestant and 30% is Roman Catholic; there are also small animist and Buddhist minorities. French and Tahitian (a Maori dialect) are the official languages; English is also spoken. Marine life is abundant, both in the surrounding ocean and in rivers and streams; there are no indigenous mammals.

The territory is divided into five administrative areas (circonscriptions). A 49-member territorial assembly is elected every five years by universal suffrage. A council of ministers, headed by a president picked by the assembly, chooses a vice-president and nine other ministers. The president assists the French-appointed high commissioner, who is the administrator for the whole territory of French Polynesia. The Economic Social and Cultural Council, composed of representatives of industry and professional groups, is a consultative body. Two deputies and a senator represent the territory in the French parliament.

Tourism produces income of more than CFP40 billion yearly; visitor numbers exceeded 250,000 for the first time in 2000. Seven international airlines operate to and from French Polynesia. Tropical fruit, vanilla, coffee, and coconuts are the principal agricultural products. Fishing has intensified in recent years, especially for tuna and shark meat. Phosphate deposits, mined on Makatea in the Tuamotu Islands, were exhausted by 1966. The Pacific Nuclear Test Center, constructed on the atoll of Mururoa in the 1960s, the Office for Overseas Scientific and Technical Research, and the Oceanological Center of the Pacific

(which experiments with shrimp and oyster breeding) operate in the region. A space telecommunications station is based at Tahiti. In 1996, France definitively halted all nuclear testing in French Polynesia, after it had resumed nuclear testing on the Mururoa atoll in 1995.

Currency is the Communauté Française de Pacifique franc, linked to the euro at a rate of €1=CFP Fr119.25. Exports in 1999 totaled us\$205 million (mostly cultured black pearls and coconut products); imports, us\$749 million.

There are a number of hospitals and private clinics on the island, and one large government hospital on Tahiti. The educational system is well-developed, and the Université de la Polynésie Française (UPF) was created in 1999, out of the former Université Française du Pacifique. The UPF had 2,372 students preparing for a diploma during the 2002–03 academic year. Agricultural and technical schools also offer postsecondary education.

French Polynesia in 1995 had 3 daily newspapers, 5 AM stations, 2 FM radio stations, and 6 TV stations.

## FRENCH SOUTHERN AND ANTARCTIC TERRITORIES

The French Southern and Antarctic Territories (Terres Australes et Antarctiques Françaises), an overseas territory of France, have a total area of 7,781 sq km (3,004 sq mi), not including Adélie Land, and are administered by an appointed administrator and consultative council from Paris. Most of the population (145 in 2002) in the territories were researchers.

The Kerguelen Archipelago, situated at 48° to 50° s and 68° to 70° E, about 5,300 km (3,300 mi) SE of the Cape of Good Hope, consists of one large and about 300 small islands with a total area of 7,215 sq km (2,786 sq mi). France maintains a captive register for French-owned merchant ships in the archipelago.

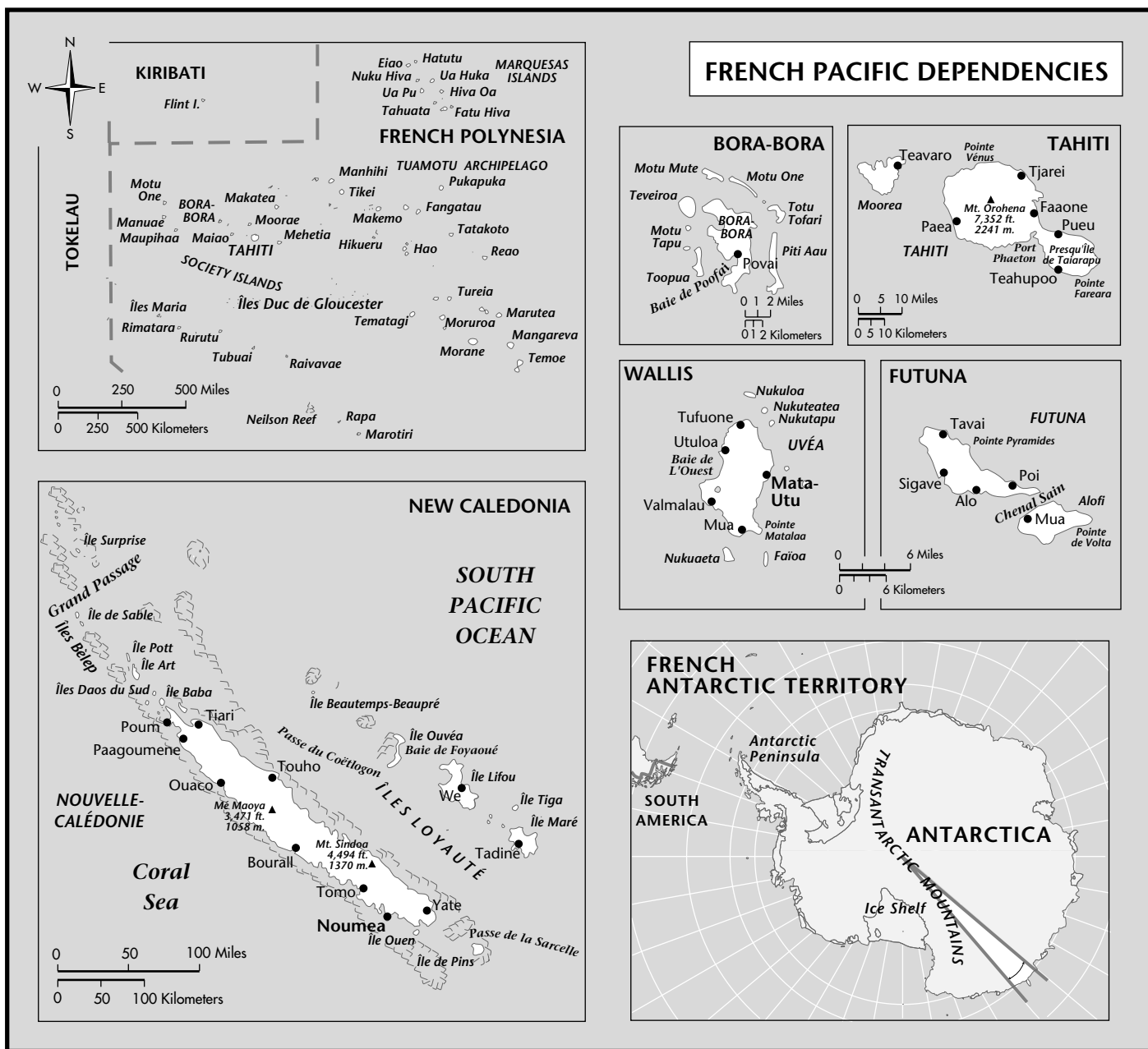
Crozet Archipelago, at 46° s and 50° to 52° E, consists of 5 main and 15 smaller uninhabited islands, with a total area of 505 sq km (195 sq mi).

St. Paul, at about 38° 25' s and 77° 32' E, is an uninhabited island with an area of about 7 sq km (2.7 sq mi). Some 80 km (50 mi) to the north, at about 37° 50' s and with an area of about 54 sq km (21 sq mi), is Amsterdam Island.

Adélie Land (Terre Adélie), comprising some 432,000 sq km (167,000 sq mi) of Antarctica between 136° and 142° E, s of 67° s, was discovered in 1840 by Dumont d'Urville and claimed by him for France.

## NEW CALEDONIA

New Caledonia (Nouvelle-Calédonie), a French overseas territory NE of Australia in the South Pacific Ocean, lies between 18° and 23° s and 162° and 169° E. The main island is about 400 km (250 mi) long and 50 km (30 mi) wide, with a surface area of 16,192 sq km (6,252 sq mi). Mountainous and partly surrounded by coral reefs, the island is mostly forested or covered with low bush. With its dependencies and protectorates, it has an overall area of 18,576 sq km (7,172 sq mi). Native fauna is sparse, but



plant life is abundant; among the plants unique to the territory is niaouli, a tree of the eucalyptus family whose leaves are processed for the pharmaceutical industry.

Total population in 2002 was estimated to be 207,858, of whom 42.5% were native Melanesians and 37% were Europeans. French and various Melanesian and other local languages are spoken. Roman Catholicism is the majority religion.

New Caledonia was discovered in 1768 by Louis Antoine de Bougainville and was named by James Cook, who landed there in 1774. Local chiefs recognized France's title in 1844, and New Caledonia became a French possession in 1853. In 1946, it became a French overseas territory, and in 1958, its assembly voted to maintain that status. Under 1976, 1984, and 1985 laws, New Caledonia is administered by an appointed high commissioner, an executive council, and a 54-seat territorial

Congress, consisting of the membership of the three provincial assemblies. New Caledonia has two representatives in the French national assembly and one in the senate. The territory is divided into three provinces (Îles Loyauté, Nord, and Sud); municipal communes play a role in primary education and social welfare.

The economy is based on agriculture and mining. Coffee, copra, potatoes, cassava, corn, wheat, and fruits are the main crops, but agricultural production does not meet the domestic demand. New Caledonia is the fourth largest producer of ferromanganese in the world, after Canada, Indonesia, and Russia. Nickel mining and smelting accounted for an estimated 12% of GDP and 80% of export earnings in 2000. New Caledonia has approximately 25% of the world's known nickel reserves. Coffee, copra, and chromium make up most of the other exports. Trade is mainly with France, Australia, Japan, and the United States. In

2000, exports totaled us\$400 million, imports totaled us\$1 billion.

## WALLIS AND FUTUNA

Wallis Island and the Futuna, or Hoorn, Islands in the Southwest Pacific constitute a French overseas territory, with the capital at Mata-Utu, on Wallis (also called Uvéa). Lying about 400 km (250 mi) w of Pago Pago, American Samoa, at 13° 22' s and 176° 12' w, Wallis, 154 sq km (59 sq mi) in area, is surrounded by a coral reef with a single channel. The Futuna Islands are about 190 km (120 mi) to the sw at 14° 20' s and about 177° 30' w. They comprise two volcanic islands, Futuna and Alofi, which, together with a group of small islands, have a total area of about 116 sq km (45 sq mi).

The Futuna group was discovered by Dutch sailors in 1616; Wallis (at first called Uvéa) was discovered by the English explorer Samuel Wallis in 1767. A French missionary established a Catholic mission on Wallis in 1837, and missions soon followed on the other islands. In 1842, the French established a protectorate, which was officially confirmed in 1887 for Wallis and in 1888 for Futuna. As of mid-2002, Wallis and Futuna had an estimated 15,585 inhabitants. Most of the population is Polynesian; only 2.5% are European. French and Uvean are the principal languages spoken; 99% of the population is Roman Catholic. A high administrator, representing the French government, is assisted by a 20-seat territorial assembly. Principal commercial activities are the production of copra and fishing for trochus. The chief food crops are yams, taro, bananas, manioc, and arrowroot.



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# INDIA

Republic of India  
*Bharat Ganarajya*

**CAPITAL:** New Delhi

**FLAG:** The national flag, adopted in 1947, is a tricolor of deep saffron, white, and green horizontal stripes. In the center of the white stripe is a blue wheel representing the wheel (chakra) that appears on the abacus of Asoka's lion capital (c.250 BC) at Sarnath, Uttar Pradesh.

**ANTHEM:** *Jana gana mana (Thou Art the Ruler of the Minds of All People)*. A national song of equal status is *Vande Mataram (I Bow to Thee, Mother)*.

**MONETARY UNIT:** The rupee (R) is a paper currency of 100 paise. There are coins of 5, 10, 20, 25, and 50 paise, and 1, 2, and 5 rupees, and notes of 2, 5, 10, 20, 50, 100, and 500 rupees. R1 = 0.02129 (or \$1 = R46.97) as of May 2003.

**WEIGHTS AND MEASURES:** Metric weights and measures, introduced in 1958, replaced the British and local systems. Indian numerical units still in use include the lakh (equal to 100,000) and the crore (equal to 10 million).

**HOLIDAYS:** Republic Day, 26 January; Independence Day, 15 August; Gandhi Jayanti, 2 October. Annual events—some national, others purely local, and each associated with one or more religious communities—number in the hundreds. The more important include Shivarati in February; and Raksha Bandhan in August. Movable religious holidays include Holi, Ganesh Chaturthi, Durga Puja, Dussehra, 'Id al-Fitr, Dewali; and Christmas, 25 December.

**TIME:** 5:30 PM = noon GMT.

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

The Republic of India, Asia's second-largest country after China, fills the major part of the South Asian subcontinent (which it shares with Pakistan, Nepal, Bhutan, and Bangladesh) and includes the Andaman and Nicobar Islands in the Bay of Bengal and Lakshadweep (formerly the Laccadive, Minicoy, and Amindivi Islands) in the Arabian Sea. The total area is 3,287,590 sq km (1,269,345 sq mi), including 222,236 sq km (85,806 sq mi) belonging to Jammu and Kashmir; of this disputed region, 78,932 sq km (30,476 sq mi) are under the de facto control of Pakistan and 42,735 sq km (16,500 sq mi) are held by China. Comparatively, the area occupied by India is slightly more than one-third the size of the United States. China claims part of Arunachal Pradesh. Continental India extends 3,214 km (1,997 mi) N-S and 2,933 km (1,822 mi) E-W. India is bordered on the N by the disputed area of Jammu and Kashmir (west of the Karakoram Pass), China, Nepal, and Bhutan; on the E by Myanmar, Bangladesh, and the Bay of Bengal; on the S by the Indian Ocean; on the W by the Arabian Sea; and on the NW by Pakistan. The total boundary length is 21,103 km (13,113 mi), of which 7,00 km (4,340 mi) is coastline.

India's capital city, New Delhi, is located in the northcentral part of the country.

## <sup>2</sup>TOPOGRAPHY

Three major features fill the Indian landscape: the Himalayas and associated ranges, a geologically young mountain belt, folded, faulted, and uplifted, that marks the nation's northern boundary and effectively seals India climatically from other Asian countries; the Peninsula, a huge stable massif of ancient crystalline rock, severely weathered and eroded; and the Ganges-Brahmaputra Lowland, a structural trough between the two rivers, now an alluvial plain carrying some of India's major rivers from the

Peninsula and the Himalayas to the sea. These three features, plus a narrow coastal plain along the Arabian Sea and a wider one along the Bay of Bengal, effectively establish five major physical-economic zones in India.

Some of the world's highest peaks are found in the northern mountains: Kanchenjunga (8,598 m/28,208 ft), the third-highest mountain in the world, is on the border between Sikkim and Nepal; Nanda Devi (7,817 m/25,645 ft), Badrinath (7,138 m/23,420 ft), and Dunagiri (7,065 m/23,179 ft) are wholly in India; and Kamet (7,756 m/25,447 ft) is on the border between India and Tibet.

The Peninsula consists of an abrupt 2,400-km (1,500-mi) escarpment, the Western Ghats, facing the Arabian Sea; interior low, rolling hills seldom rising above 610 m (2,000 ft); an interior plateau, the Deccan, a vast lava bed; and peripheral hills on the north, east, and south, which rise to 2,440 m (8,000 ft) in the Nilgiris and Cardamoms of Kerala and Tamil Nadu. The Peninsula holds the bulk of India's mineral wealth, and many of its great rivers—the Narbada, Tapti, Mahanadi, Godavari, Krishna, and Kaveri—flow through it to the sea. The great trench between the Peninsula and the Himalayas is the largest alluvial plain on earth, covering 1,088,000 sq km (420,000 sq mi) and extending without noticeable interruption 3,200 km (2,000 mi) from the Indus Delta (in Pakistan) to the Ganges-Brahmaputra Delta (shared by India and Bangladesh), at an average width of about 320 km (200 mi). Along this plain flow the Ganges, Brahmaputra, Son, Jumna, Chambal, Gogra, and many other major rivers, which provide India with its richest agricultural land.

## <sup>3</sup>CLIMATE

The lower east (Coromandel) and west (Malabar) coasts of the Peninsula and the Ganges Delta are humid tropical; most of the

Peninsula and the Ganges-Brahmaputra Lowland are moist subtropical to temperate; and the semiarid steppe and dry desert of the far west are subtropical to temperate. The northern mountains display a zonal stratification from moist subtropical to dry arctic, depending on altitude.

Extremes of weather are even more pronounced than the wide variety of climatic types would indicate. Thus, villages in western Rajasthan, in the Thar (Great Indian) Desert, may experience less than 13 cm (5 in) of rainfall yearly, while 2,400 km (1,500 mi) eastward, in the Khasi Hills of Assam, Cherrapunji averages about 1,143 cm (450 in) yearly. Sections of the Malabar Coast and hill stations in the Himalayas regularly receive 250–760 cm (100–300 in) yearly; many areas of the heavily populated Ganges-Brahmaputra Lowland and the Peninsula receive under 100 cm (40 in). Winter snowfall is normal for the northern mountains and Kashmir Valley, but for most of India, scorching spring dust storms and severe hailstorms are more common. The northern half of the country is subject to frost from November through February, but by May a temperature as high as 49°C (120°F) in the shade may be recorded. High relative humidity is general from April through September. Extratropical cyclones (similar to hurricanes) often strike the coastal areas between April and June and between September and December.

The monsoon is the predominant feature of India's climate and helps to divide the year into four seasons: rainy, the southwest monsoon, June–September; moist, the retreating monsoon, October–November; dry cool, the northeast monsoon, December–March; hot, April–May. The southwest monsoon brings from the Indian Ocean the moisture on which Indian agriculture relies. Unfortunately, neither the exact times of its annual arrival and departure nor its duration and intensity can be predicted, and variations are great. In 1987, the failure of the southwest monsoon resulted in one of India's worst droughts of the century.

#### 4 FLORA AND FAUNA

Almost one-fourth of the land is forested. Valuable commercial forests, some of luxuriant tropical growth, are mainly restricted to the eastern Himalayas, the Western Ghats, and the Andaman Islands. Pine, oak, bamboo, juniper, deodar, and sal are important species of the Himalayas; sandalwood, teak, rosewood, mango, and Indian mahogany are found in the southern Peninsula. Some 15,000 varieties of midlatitude, subtropical, and tropical flowers abound in their appropriate climatic zones.

India has over 300 species of mammals, 900 species of breeding birds, and a great diversity of fish and reptiles. Wild mammals, including deer, Indian bison, monkeys, and bears, live in the Himalayan foothills and the hilly section of Assam and the plateau. In the populated areas, many dogs, cows, and monkeys wander as wild or semiwild scavengers.

#### 5 ENVIRONMENT

Among India's most pressing environmental problems are land damage, water shortages, and air and water pollution. During 1985, deforestation, which, especially in the Himalaya watershed areas, aggravates the danger of flooding, averaged 1,471 sq km (568 sq mi) per year. India also lost 50% of its mangrove area between 1963 and 1977. Despite three decades of flood-control programs that had already cost an estimated \$10 billion, floods in 1980 alone claimed nearly 2,000 lives, killed tens of thousands of cattle, and affected 55 million people on 11.3 million hectares (28 million acres) of land. As of the mid-1990s, 60% of the land where crops could be grown had been damaged by the grazing of the nation's 406 million head of livestock, deforestation, misuse of agricultural chemicals, and salinization.

Due to uncontrolled dumping of chemical and industrial waste, fertilizers and pesticides, 70% of the surface water in India is polluted. The nation has 1,260 cu km of renewable water

resources, of which 92% is used for farming. Safe drinking water is available to 95% of urban and 79% of rural dwellers. Air pollution is most severe in urban centers, but even in rural areas, the burning of wood, charcoal, and dung for fuel, coupled with dust from wind erosion during the dry season, poses a significant problem. Industrial air pollution threatens some of India's architectural treasures, including the Taj Mahal in Agra, part of the exterior of which has been dulled and pitted by airborne acids. In what was probably the worst industrial disaster of all time, a noxious gas leak from a Union Carbide pesticide plant in Bhopal, the capital of Madhya Pradesh, killed more than 1,500 people and injured tens of thousands of others in December 1985. In 1992 India had the world's sixth-highest level of industrial carbon dioxide emissions, which totaled 769 million metric tons, a per capita level of 0.88 metric tons.

The environmental effects of intensive urbanization are evident in all the major cities, although Calcutta—once a symbol of urban blight—has been freed of cholera, and most of the city now has water purification and sewer services. Analogous improvements have been made in other leading cities under the Central Scheme for Environmental Improvement in Slum Areas, launched in 1972, which provided funds for sewers, community baths and latrines, road paving, and other services. However, as of the mid-1990s, only 21 of India's 3,245 cities had effective sewage treatment.

The National Committee on Environmental Planning and Coordination was established in 1972 to investigate and propose solutions to environmental problems resulting from continued population growth and consequent economic development; in 1980, the Department of the Environment was created. The sixth development plan (1979–84), which for the first time included a section on environmental planning and coordination, gave the planning commission veto power over development projects that might damage the environment; this policy was sustained in the seventh development plan (1985–90). The National Environmental Engineering Research Institute has field center areas throughout the country.

The Wildlife Act of 1972 prohibits killing of and commerce in threatened animals. In 1985 there were 20 national parks and more than 200 wildlife sanctuaries. As of 2001, 4.4% of India's total land area was protected. In addition to 75 species of mammals, 73 types of birds are endangered, as are 785 plant species. Endangered species in India include the lion-tailed macaque, five species of langur, the Indus dolphin, wolf, Asiatic wild dog, Malabar large-spotted civet, clouded leopard, Asiatic lion, Indian tiger, leopard, snow leopard, cheetah, Asian elephant, dugong, wild Asian ass, great Indian rhinoceros, Sumatran rhinoceros, pygmy hog, swamp deer, Himalayan musk deer, Kashmir stag or hangul, Asiatic buffalo, gaur, wild yak, white-winged wood duck, four species of pheasant, the crimson tragopan, Siberian white crane, great Indian bustard, river terrapin, marsh and estuarine crocodiles, gavia, and Indian python. Although wardens are authorized to shoot poachers on game reserves, poaching continues, with the Indian rhinoceros (whose horn is renowned for its supposed aphrodisiac qualities) an especially valuable prize.

#### 6 POPULATION

The population of India in 2003 was estimated by the United Nations at 1,065,462,000, which makes it the second most populous country among the 193 nations of the world. China is the only nation with more people, and the only other country with more than one billion inhabitants. Moreover, the US Census Bureau expects India's population to surpass China's by 2035. The key to India's rapid population growth since the 1920s has been a sharp decline in the death rate because of improvements in health care, nutrition, and sanitation. In 1921, when India's population stood at 251,321,213, the birthrate was 48.1 but the



LOCATION: 8°4' to 37°6' N; 68°7' to 97°25' E. BOUNDARY LENGTHS: Nepal, 1,690 kilometers (1,050 miles); Bhutan, 605 kilometers (373 miles); Myanmar, 1,463 kilometers (910 miles); Bangladesh, 4,053 kilometers (2,520 miles); total coastline, 7,000 kilometers (4,360 miles); Pakistan, 2,912 kilometers (1,800 miles). TERRITORIAL SEA LIMIT: 12 miles.

death rate was 47.2; by 1961, when the population reached 439,234,771, the birthrate was still high at 40.8, but the death rate had dropped by more than half to 22.8. A drop in the birthrate from 41.1 in 1971 to 30.2 in 1990–91, presumably attributable to an aggressive program of family planning, contraception, and sterilization, had little immediate impact on the compounded population growth rate, which averaged 2.1% in the 1980s and 1.9% in 1990–95. The government considers the rapid population growth a serious problem, particularly in relation to reducing poverty. The goal of the Indian government is to reach zero population growth by 2050 with a population of 1.3 billion. In 2003 approximately 4% of the population was over 65 years of age, with another 36% of the population under 15 years of age. There were 106 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.51%, with the projected population for the year 2015 at 1,246,351,000. The population density in 2002 was 319 per sq km (827 per sq mi). It was estimated by the Population Reference Bureau that 28% of the population lived in urban areas in 2001. The majority of people live in some 555,315 villages with fewer than 10,000 residents each. The capital city, New Delhi, had a population of 11,345,000 in 2002. Other large urban areas were Mumbai (formerly Bombay) (18,042,000), Calcutta (12,900,000), Delhi (11,680,000), Madras (6,639,000), Hyderabad (6,833,000), Bangalore (5,554,000), Ahmadabad (4,154,000), Pune (3,485,000), Kanpur (2,447,000), Lucknow (2,565,000), Surat 2,341,000, Nagpur (2,060,000), and Jaipur (2,143,000). According to the United Nations, the urban population growth rate for 2000–2005 was 2.8%. The surge in urban population is considered to be another major constraint to economic development.

## 7 MIGRATION

The partitioning of the South Asian subcontinent to create India and Pakistan in 1947 produced one of the great mass migrations in human history, involving some 20 million people. Historically, major migratory movements have been to and from Sri Lanka, Malaysia, Myanmar, and Bangladesh. The influx of Muslim refugees (estimated at 280,000 in 1983) from Bangladesh to Assam state has sparked protests among Hindus since the late 1970s. Persons of Indian origin domiciled abroad (excluding Pakistan) reside mainly in Sri Lanka, Malaysia, Nepal, Myanmar, South Africa, Mauritius, Trinidad and Tobago, Guyana, Fiji, the United States, and the United Kingdom. Indian minority groups in foreign countries generally do not become assimilated with the local population but live as separate groups, intermarry, and retain their own distinctive culture even after a residence of several generations.

There has been a steady migration within India from rural to urban areas. Linguistic differences limit the degree of interstate migration, as do efforts by some states to limit job opportunities for migrants and to give preference in public employment to longtime local residents. In 1999 there were around 66,000 Sri Lankan refugees located in 133 camps in the southern state of Tamil Nadu. An estimated 40,000 Sri Lankans live outside the camps. They began arriving in the early 1990s. Since 1992, 54,000 repatriated voluntarily. However, repatriation stopped in 1995 due to violence in Sri Lanka. Some 3,800 people arrived in 1998, and the arrivals continue. Indian authorities have not requested international assistance for Sri Lankan refugees, and the repatriation of Sri Lankans to their country is voluntary.

In 2000 there were 6,271,000 migrants living in India, including 170,900 refugees. In 2000 the net immigration rate was -0.03 migrants per 1,000 population, which amounted to a net loss of approximately 280,000 people. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

India's ethnic history is extremely complex, and distinct racial divisions between peoples generally cannot be drawn clearly. However, Negroid, Australoid, Mongoloid, and Caucasoid stocks are discernible. The first three are represented mainly by tribal peoples in the southern hills, the plateau, Assam, the Himalayas, and the Andaman Islands. The main Caucasoid elements are the Mediterranean, including groups dominant in much of the north, and the Nordic or Indo-Aryan, a taller, fairer-skinned strain dominant in the northwest. The dark-complexioned Dravidians of the south have a mixture of Mediterranean and Australoid features. In 1999, 72% of the population was Indo-Aryan, 25% Dravidian, 3% Mongoloid and other.

## 9 LANGUAGES

The 1961 census recorded 1,652 different languages and dialects in India; one state alone, Madhya Pradesh, had 377. There are officially 211 separate, distinct languages, of which Hindi, English, and 15 regional languages are officially recognized by the constitution. There are 24 languages that are each spoken by a million or more persons.

The most important speech group, culturally and numerically, is the Indo-Aryan branch of the Indo-European family, consisting of languages that are derived from Sanskrit. Hindi, spoken as the mother tongue by about 240 million people (30% of the total population) in 1999, is the principal language in this family. Urdu differs from Hindi in being written in the Arabic-Farsi script and containing a large mixture of Arabic and Farsi words. Western Hindi, Eastern Hindi, Bihari, and Pahari are recognized separate Hindi dialects. Other Indo-Aryan languages include Assamese, Bengali, Gujarati, Kashmiri, Marathi, Oriya, Punjabi, Rajasthani, and Sindhi. Languages of Dravidian stock are dominant in southern India and include Telugu, Tamil, Kannada, and Malayalam. A few tribal languages of eastern India, such as Ho and Santali, fit into the aboriginal Munda family, which predates the Dravidian family on the subcontinent. Smaller groups in Assam and the Himalayas speak languages of Mon-Khmer and Tibeto-Chinese origin.

English is spoken as the native tongue by an estimated 10–15 million Indians and is widely employed in government, education, science, communications, and industry; it is often a second or third language of the educated classes. Although Hindi in Devanagari script is the official language, English is also recognized for official purposes. According to government policy, Hindi is the national language; for that reason, Hindi instruction in non-Hindi areas is being rapidly increased, and large numbers of scientific and other modern words are being added to its vocabulary. However, there has been considerable resistance to the adoption of Hindi in the Dravidian-language areas of southern India, as well as in some of the Indo-Aryan-speaking areas, especially West Bengal.

The importance of regional languages was well demonstrated in 1956, when the states were reorganized along linguistic boundaries. Thus, multilingual Hyderabad state was abolished by giving its Marathi-speaking sections to Mumbai (formerly Bombay, now in Maharashtra), its Telugu sections to Andhra Pradesh, and its Kannada sections to Mysore (now Karnataka). The Malayalam-speaking areas of Madras were united with Travancore-Cochin to form a single Malayalam state, Kerala. Madhya Bharat, Bhopal, and Vindhya Pradesh, three small Hindi-speaking states, were given to Madhya Pradesh, a large Hindi state, which, at the same time, lost its southern Marathi areas to Mumbai (formerly Bombay) state. Many other boundary changes occurred in this reorganization. Mumbai state originally was to have been divided into Gujarati and Marathi linguistic sections but remained as one state largely because of disagreement over which group was to receive the city of

Mumbai (formerly Bombay). In 1960, however, it, too, was split into two states, Gujarat and Maharashtra, on the basis of linguistic boundaries. In 1966, the government of India accepted the demand of the Punjabi-speaking people, mainly Sikhs, to divide the bilingual state of Punjab into two unilingual areas, with the Hindi-speaking area to be known as Haryana and the Punjabi-speaking area to retain the name of Punjab.

India has almost as many forms of script as it has languages. Thus, all of the Dravidian and some of the Indo-Aryan languages have their own distinctive alphabets, which differ greatly in form and appearance. Some languages, such as Hindi, may be written in either of two different scripts. Konkani, a dialect of the west coast, is written in three different scripts in different geographic areas.

## 10 RELIGIONS

India is the cradle of two of the world's great religions, Hinduism and Buddhism. The principal texts of Hinduism—the *Rig Veda* (*Verses of Spiritual Knowledge*), the *Upanishads* (*Ways of Worship*), and the *Bhagavad-Gita* (*Song of the Lord*)—were written between 1200 and 100 BC. The teachings of Buddha, who lived during the 6th–5th centuries BC, were first transmitted orally and then systematized for transmission throughout Asia. Jainism, a religion that developed contemporaneously with Buddhism, has largely been confined to India. The Sikh religion began in the 15th century as an attempt to reconcile Muslim and Hindu doctrine, but the Sikhs soon became a warrior sect bitterly opposed to Islam.

Freedom of worship is assured under the constitution. In 2002, an estimated 81% of the population adhered to Hinduism. Hindus have an absolute majority in all areas except Nagaland, Jammu and Kashmir, and the tribal areas of Assam. Sikhs (about 2% of the population) are concentrated in the state of Punjab, which since 1980 has been the site of violent acts by Sikh activists demanding greater autonomy from the Hindu-dominated central government. Other religious groups include Muslims (12% in 2002, mostly Sunni) and Christians (2.3%). The remaining religion followers consist of Buddhists, Jains, and other groups. Muslims comprise more than 10% of the population in Maharashtra, Bihar, Karnataka, and West Bengal, and more than 30% of the total population in Assam and Kerala. Christians form the majority in Nagaland and are a sizable minority in Kerala. The Jains are an important minority in Rajasthan and Gujarat, and the Parsis (Zoroastrians) in Maharashtra.

The caste system is a distinct feature of Hinduism, wherein every person either is born into one of four groups—Brahmins (priests and scholars), Kshatriyas (warriors and rulers), Vaisyas (shopkeepers, artisans, and farmers), and Sudras (farm laborers and menial workers)—or is casteless and thus untouchable (now known as Harijan, from the term used by Mahatma Gandhi). Within the four major castes there are 2,500 to 3,000 subcastes based upon occupation, geographic location, and other factors. Although the constitution outlaws caste distinctions and discrimination, especially those applying to untouchability, progress in changing customs has been slow.

## 11 TRANSPORTATION

The railway system is highly developed and is the major means of long-distance internal transport. In 2002, the railways spanned some 63,963 km (39,747 mi), forming the largest system in Asia and the fourth largest in the world. Also in 2002, a total of 13,771 km (8,557 mi) of track was electrified. Virtually all railways are state owned. The state-owned railways are the nation's largest public enterprise. In October 1984, India's first subway began operation in Calcutta over 3 km (1.9 mi) of track.

The national and state road network in 2002 consisted of about 3,319,644 km (2,062,827 mi), of which 1,517,077 km (942,712 mi) were paved. In 2000, there were 7,557,753 motor

vehicles, including 3,640,919 automobiles and 3,916,834 commercial vehicles.

India has about 16,180 km (10,054 mi) of inland waterways, with 3,631 km (2,256 mi) navigable by large vessels. Most important are the Ganges, Brahmaputra, Godavari, and Krishna rivers and the coastal plain canals of Kerala, Madras, Andhra Pradesh, and Orissa. Canals span some 4,300 km (2,700 mi), but only 331 km (206 mi) are used by motorized vessels.

In 2002, India's merchant fleet totaled 319 vessels, with a combined GRT of 6,325,284, sufficient to handle almost all of the country's coastal trade and much of its trade with adjacent countries; the rest of India's trade is handled by foreign ships. Eleven major ports handle the bulk of the import-export traffic; the leading ports are Mumbai (formerly Bombay) and Mormugao. There are 140 smaller ports along the Indian coastline.

In 2001, there were 335 airports, of which 232 had paved runways. International airports are at Mumbai, formerly Bombay (Santa Cruz); Calcutta (Dum Dum); Delhi (Indira Gandhi); Madras (Meenambakkam); and Trivandrum. The Indian Airlines Corp., a nationalized industry, operates all internal flights and services to neighboring countries with daily flights to 60 cities. Air-India, also government owned, operates long-distance services to foreign countries on five continents. A new national airline, Vayudoot, was established in 1981 to provide service to otherwise inaccessible areas in the northeast. Private airlines are growing in importance as well. In 2001, 17,272,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

India is one of the oldest continuously inhabited regions in the world. In Harappa, an area in the Indus Valley (now in Pakistan), between 3000 and 2000 BC, scores of thriving municipalities developed a distinct urban culture. This riverain civilization disappeared around 1500–1200 BC, probably owing to the arrival of Aryan (Indo-European-speaking) invaders, who began pouring through Afghanistan onto the lush plains of northern India. There followed over a thousand years of instability, of petty states and larger kingdoms, as one invading group after another contended for power. During this period, Indian village and family patterns, along with Brahmanism—the ancient form of Hinduism—and its caste system, became well established. Among the distinguished oral literature surviving from this period are two anonymous Sanskrit epics, the *Ramayana* (traditionally attributed to the legendary poet Valmiki) and the *Mahabharata* (the longest poem in the world, containing over 100,000 verses, including the *Bhagavad-Gita*).

The South Asian subcontinent already had a population of about 30 million, of whom approximately 20 million lived in the Ganges Basin, when Alexander the Great invaded the Indus Valley in 326 BC. His successors were absorbed by the new Maurya dynasty (c.321–c.184 BC); under Chandragupta (r. c.321–c.297 BC), from his capital at Pataliputra (now Patna), the Mauryans subdued most of northern India and what is now Bangladesh. His successor, Asoka (r.273–232 BC), put all of India under unified control for the first time; an early convert to Buddhism, his regime was remembered for its sectarian tolerance, as well as for remarkable administrative, legal, and cultural achievements. Many of the Buddhist monuments and elaborately carved cave temples found at Sarnath, Ajanta, Bodhgaya, and other places in India date from the reigns of Asoka and his Buddhist successors.

In the years following Asoka, India divided again into a patchwork of kingdoms, as other invaders arrived from central and western Asia. In the process, Hinduism prevailed over Buddhism, which found wide acceptance in Asian lands other than India, its birthplace. Although predated by other states of

Brahmanic origin, true Hindu kingdoms first appeared in the Peninsula after the 4th century AD. The era of the Gupta dynasty rule (AD 320–c.535) was a golden age of art, literature, and science in India. And Hindu princes of the Rajput sub-caste, ruling in the north, reached their peak of power from AD 700 to 1000, although their descendants retained much of their influence well into British days.

In the 8th century, the first of several waves of Islamic invaders appeared at the traditional northwest portals; between the years 1000 and 1030, Mahmud of Ghazni made 17 forays into the subcontinent. The first Muslim sultan of Delhi was Kutb-ud-din (r. c.1195–1210), and Islam gradually spread eastward and southward, reaching its greatest territorial and cultural extent under the Mughal (or Mogul) dynasty. “Mughal” comes from the Farsi word for Mongol, and the Mughals were descendants of the great 14th-century Mongol conqueror Timur (also known as “Timur the Lame” or Tamerlane), a descendant in turn of Genghis Khan.

One of the Timurid princes, the great Babur (r.1526–30), captured Kabul in 1504 and defeated the Sultan of Delhi in 1526, becoming the first of the Mughals to proclaim himself emperor of India. It was not until 1560 that Akbar (r.1556–1605), Babur's grandson, extended the dynasty's authority over all of northern India, and it was Akbar who was the first of the Muslim emperors to attempt the establishment of a national state in alliance with Hindu rajahs (kings). Though illiterate, he was a great patron of art and literature. Among his successors were Shah Jahan and his son Aurangzeb, who left their imprint in massive palaces and mosques, superb fortresses (like the Lahore fort), dazzling mausoleums (like the Taj Mahal at Agra), elaborate formal gardens (like those in Srinagar), and the abandoned city of Fatehpur Sikri (37 km/23 mi w of Agra). Under Aurangzeb (r.1658–1707), who seized his father's throne, the Mughal Empire reached its greatest extent and then began its decline, largely the result of his repressive policies. The Hindu Marathas fought the Mughals and established their own empire in western India.

Vasco da Gama reached India's southwest coast by sea in 1498, and for a century the Portuguese had a monopoly over Indian sea. Although it continued to hold bits of Indian territory until 1961, Portugal lost its dominant position as early as 1612 when forces controlled by the British East India Company defeated the Portuguese and won concessions from the declining Mughals. The company, which had been established in 1600, had permanent trading settlements in Madras, Mumbai (formerly Bombay), and Calcutta by 1690. Threatened by the French East India Company, which was founded in 1664, the two companies fought each other as part of their nations' struggle for supremacy in Europe and the western hemisphere in the 18th century. They both allied with rival Indian princes and recruited soldiers (*sepoys*) locally, but the French and their allies suffered disastrous defeats in 1756 and 1757, against the backdrop of the larger sweep of the Seven Years' War (1756–63), and by 1761, France was no longer a power in India. The architect of the British triumph, later known as the founder of British India, was Robert Clive, later Baron, who became governor of the Company's Bengal Presidency in 1764, to be followed by Warren Hastings and Lord Cornwallis in the years before 1800. The Company's rule spread up the Gangetic plain to Oudh and Delhi, and eventually, to western India where the Maratha Confederacy, the alliance of independent Indian states that had succeeded the Mughal Empire there, was reduced to a group of relatively weak principalities owing fealty to the British in 1818.

The British government took direct control of the Company's Indian domain during the Sepoy Mutiny (1857–59), a widespread rebellion by Indian soldiers in the company's service, and in 1859, Queen Victoria was proclaimed Empress of India. The succeeding decades were characterized by significant economic

and political development, but also by a growing cultural and political gap between Indians and British. Indian troops were deployed elsewhere in the world by the Crown in defense of British interests but without any recourse of Indian views.

### Nationalism and Independence

While the British moved gradually to expand local self-rule along federal lines, British power was increasingly challenged by the rise of indigenous movements advocating a faster pace. A modern Indian nationalism began to grow as a result of the influence of groups like the Arya Samaj, in the last century, of Western culture and education among the elite, and of the Indian National Congress (INC). Founded as an Anglophile debating society in 1885, the INC grew into a movement leading agitation for greater self-rule in the first 30 years of this century. Under the leadership of Mohandas Karamchand Gandhi (called the Mahatma, or Great Soul) and other nationalist leaders, such as Motilal and Jawaharlal Nehru, the INC began to attract mass support in the 1930s with the success of its noncooperation campaigns and its advocacy of education, cottage industries, self-help, an end to the caste system, and nonviolent struggle. But Muslims had also been politicized, beginning with the abortive partition of Bengal during the period 1905–12. And despite the INC leadership's commitment to secularism, as the movement evolved under Gandhi, its leadership style appeared—to Muslims—uniquely Hindu, leading Indian Muslims to look to the protection of their interests in the formation of their own organization, the All-India Muslim League (ML).

National and provincial elections in the mid-1930s persuaded many Muslims that the power the majority Hindu population could exercise at the ballot box, however secular the INC's outlook, could leave them as a permanent electoral minority in any single democratic polity that would follow British rule. Sentiment in the Muslim League began to coalesce around the “two nation” theory propounded by the poet Iqbal, who argued that Muslims and Hindus were separate nations and that Muslims required creation of an independent Islamic state for their protection and fulfillment. A prominent Mumbai (formerly Bombay) attorney, Muhammad Ali Jinnah, who came to be known as “Quaid-i-Azam” (Great Leader), led the fight for a separate Muslim state to be known as Pakistan, a goal formally endorsed by the ML in Lahore in 1940.

Mahatma Gandhi, meanwhile, had broadened his demand in 1929 from self-rule to independence in 1929; in the 1930s, his campaigns of nonviolent noncooperation and civil disobedience electrified the countryside. In 1942, with British fortunes at a new low and the Japanese successful everywhere in Asia, Gandhi rejected a British appeal to postpone further talks on Indian self-rule until the end of World War II. Declining to support the British (and Allied) war effort and demanding immediate British withdrawal from India, he launched a “Quit India” campaign. In retaliation, Gandhi and most of India's nationalist leaders were jailed.

The end of World War II and the British Labor Party's victory at the polls in 1945 led to renewed negotiations on independence between Britain and the Hindu and Muslim leaders. Jawaharlal Nehru and the INC leadership pressed anew for a single, secular nation in which the rights of all would be guarded by constitutional guarantees and democratic practice. But Jinnah and the Muslim League persevered in their campaign for Pakistan. In mid-August 1947, with Hindu-Muslim tensions rising, British India was divided into the two self-governing dominions of India and Pakistan, the latter created by combining contiguous, Muslim-majority districts in British India, the former consisting of the remainder. Partition occasioned a mass movement of Hindus, Muslims, and Sikhs who found themselves on the “wrong” side of new international boundaries; as many as 20 million people moved, and up to three million of these were

killed in bloodletting on both sides of the new international frontier. Gandhi, who opposed the partition and worked unceasingly for Hindu-Muslim amity, became himself a casualty of heightened communal feeling; he was assassinated by a Hindu extremist five months after Partition.

Among the unresolved legacies of Partition was that it did not address the more than 500 princely states with which the British Crown had treaty ties. Most princely rulers chose one or the other dominion on grounds of geography, but the state of Jammu and Kashmir, bordering both new nations, had a real option. A Muslim-majority state with a Hindu maharaja, Kashmir opted first for neither but then chose to join the Indian Union when invaded in 1948 by tribesmen from Pakistan. Quickly, Indian and Pakistani armed forces were engaged in fighting that cut to the heart of the "two-nation" theory and brought the dispute to the fledgling United Nations. A UN cease-fire in 1949 left the state divided, one-third with Pakistan and the rest, including the prized Vale of Kashmir, under Indian control. An agreement to hold an impartial plebiscite broke down when the antagonists could not agree on the terms under which it would be held. While Pakistan administers its portion of the former princely state as Azad ("free") Kashmir and as the Northern Areas, under a legal fiction that they are separate from Pakistan, the Indian portion is governed as Jammu and Kashmir, a state in the Indian Union. Periodic statewide elections have been held in Jammu and Kashmir, but no plebiscite has been held on the state's future. In July 2002, the United States announced that it did not support Pakistan's persistent demand for a plebiscite in Kashmir, a statement welcome to India.

The issue has defied all efforts at solution, including two spasms of warfare in 1965 and 1971. In the late 1980s, India's cancellation of election results and dismissal of the state government led to the start of an armed insurrection by Muslim militants. Indian repression and Pakistan's tacit support of the militants have threatened to spark renewed warfare and keeps the issue festering.

India and China have been at odds about their Himalayan border since the Chinese occupation of Tibet in 1959, leading to clashes between Indian and Chinese troops at a number of locations along the disputed Himalayan border, including remote areas of Ladakh. In 1962, Chinese troops invaded—then withdrew from—Chinese claimed areas along the border, defeating India's under-equipped and badly led forces. The border dispute with China remains unresolved, although tensions have been eased by a standstill accord signed by the two countries in September 1993.

### Nehru's Successors

After Nehru's death on 27 May 1964, his successor, Lal Bahadur Shastri, led India in dealing with an unprecedented round of Hindu-Muslim violence occasioned by the theft of a holy Islamic relic in Kashmir. In August and September 1965, his government successfully resisted a new effort by Pakistan to resolve the Kashmir dispute by force of arms. India was victorious on the battlefield, and an agreement both nations signed at Tashkent in January 1966, essentially restored the status quo ante. Shastri died of a heart attack at Tashkent, while at the height of his power, and his successor, Indira Gandhi (Nehru's daughter), pledged to honor the accords. India again went to war with Pakistan in December 1971, this time to support East Pakistan in its civil war with West Pakistan; Indian forces tipped the balance in favor of the separatists and led to the creation of Bangladesh from the former East Pakistan; in Kashmir, there were minor territorial adjustments.

Domestically, Indira Gandhi consolidated her power, first dividing, and then converting the ruling Congress Party to her own political instrument. The party lost its accustomed majority in parliament in the 1967 elections, but she continued to govern

with the support of other parties and independents, winning again in 1972. In June 1975, after her conviction on minor election law violations in the 1972 polls, which required her to resign, she continued in power by proclaiming a state of emergency. By decree, she imposed press censorship, arrested opposition political leaders, and sponsored legislation that retroactively cleared her of the election law violations. These actions, although later upheld by the Supreme Court, resulted in widespread public disapproval.

Two years later, she held parliamentary elections in which she was defeated, forcing the CP into the parliamentary opposition for the first time. The state of emergency was lifted, and Morarji Desai, formerly Nehru's deputy prime minister and the compromise choice of the winning five-party Janata coalition, became prime minister. But Janata did not last. Formed solely to oppose Mrs. Gandhi, the Janata coalition had no unity or agreed program, and it soon collapsed. Mrs. Gandhi's newly reorganized Congress Party/I ("I" for Indira) courted Hindu votes to win a huge election victory in January 1980, and she regained office.

Rajiv Gandhi immediately succeeded his mother as prime minister and, in parliamentary elections held in December 1984, led the CP/I to its largest victory. But during the next two years, Rajiv proved unequal to the task, and his popularity declined precipitously as the public reacted to government-imposed price increases in basic commodities, his inability to stem escalating sectarian violence, and charges of military kickbacks and other scandals. In October 1987, Rajiv Gandhi sent Indian troops to Sri Lanka to enforce an agreement he and the Sri Lankan president had signed in July, aimed at ending the conflict between the country's Sinhalese majority and Tamil minority. In February 1983, India was beset by communal violence, a residue of the police excesses during the alleged emergency. Hindu mobs in the state of Assam (where direct central government rule had been imposed after student-led protests toppled the government the year before) attacked Muslims from Bangladesh and West Bengal, killing at least 3,000 persons. In October, Sikh factionalism triggered by her partisan maneuvering led to widespread violence by Sikh separatist militants in Punjab and to the imposition of direct rule in that state. A year later, with the Sikh separatist violence unchecked, she became herself one of its victims—assassinated by Sikh members of her own guard.

After a rise in Indo-Pakistan tensions in 1986–87, Rajiv Gandhi and Prime Minister Benazir Bhutto of Pakistan signed a protocol in which both nations agreed not to attack the nuclear facilities of the other in 1988. And in September 1989, Rajiv agreed with Sri Lanka's request to pull his 100,000 troops out of their bloody standoff with Tamil separatists by the end of the year. In elections later that fall, his Congress/I Party won only a plurality of seats in the Lok Sabha, and he resigned. Vishwanath Pratap Singh, formerly Rajiv's rival in the CP and leader of the second largest party (Janata Dal) in the house, formed a government with the support of two other parliamentary groups. Despite an encouraging start, V.P. Singh's government lost first its momentum, then its ability to command a majority in the parliament. He resigned on losing a confidence vote 11 months later and was succeeded, with Congress/I support, by longtime Janata and Congress leader Chandra Shekhar, who resigned after four months.

During the election campaign that followed in the spring of 1991, Rajiv Gandhi was assassinated by a disgruntled Sri Lankan Tamil while in Tamil Nadu. Congress/I rallied around longtime party stalwart P. V. Narasimha Rao, a former minister under both Rajiv and Indira Gandhi, drawing on a sympathy vote, to finish close enough to a majority to form a minority government. As prime minister, Rao—who was also Congress Party president—dealt sensitively with widespread Hindu-Muslim violence focused on a dispute over the land on which "Babur's Mosque" sits at Ayodhya in the state of Uttar Pradesh. He and his finance

minister were dynamic and innovative on economic reform, opening India to foreign investors and market economics, including rupee convertibility. And, despite frail health and advancing years, he brought new vigor to India's foreign policy in light of the end of the Cold War.

Rao lost his hold on power in 1996, however, after three cabinet members resigned amid charges of corruption and two elections weakened the Congress Party's rule. In May 1996, President Shankar Dayal Sharma appointed Hindu nationalist Atal Bihari Vajpayee as prime minister, beginning a whirlwind of power struggles and political instability during which India changed governments four times in 11 months. Vajpayee's Bharatiya Janata Party (BJP) government was short-lived, replaced in October by the H. D. Deve Gowda-led United Front, India's first coalition government. The Congress Party withdrew its support for Gowda in April 1997, and the UF selected I. K. Gujral, foreign minister in the outgoing government, to replace him. Gujral, a compromise choice between the United Front and Congress Party, survived in office only seven months. In November 1997, Congress again withdrew its support from the UF government. General elections were held in early 1998 and the BJP emerged as the largest single party in Parliament. A. B. Vajpayee, the BJP leader, was appointed prime minister and succeeded in forming a coalition government. This coalition collapsed in April 1999, but in elections held in September–October, the country returned Vajpayee to office at the head of the BJP-led National Democratic Alliance.

In May 1998, Vajpayee's government surprised the world by exploding several underground nuclear devices. Pakistan responded by holding its own nuclear tests later in the month. This was a cause of great concern in the international community: two countries, historical enemies whose armies faced each other in Kashmir, were now nuclear powers. The tests brought economic sanctions against both India and Pakistan from the United States and other countries. Tensions eased somewhat in February 1999, however, when Vajpayee inaugurated the first ever bus service between India and Pakistan by traveling to Lahore to meet Pakistan's prime minister. This resulted in the Lahore Declaration (signed 21 February 1999), by which India and Pakistan pledged to resolve their differences peacefully and work for nuclear security. Nevertheless, both countries continued to test medium-range missiles capable of delivering nuclear warheads on targets throughout the region.

Significantly, the Lahore Declaration made no mention of Kashmir. This hit the international headlines in the summer of 1999 when Pakistani troops and armed Islamic militants infiltrated the Indian-held Kargil region of Kashmir, bringing India and Pakistan close to full-scale war. Pakistan eventually withdrew from Kargil, after heavy fighting and casualties on both sides. This ill-fated military adventure contributed to the military coup in Pakistan in October 1999. Border clashes between Indian and Pakistani troops along the Line of Control in Kashmir are commonplace. On 24 December 1999, Kashmiri militants hijacked an Indian Airlines plane flying between Nepal and Delhi to Afghanistan, an incident India blamed on Pakistan.

Following the September 2001 terrorist attacks on the United States, the United States lifted sanctions imposed on India following its 1998 nuclear tests, citing India's support in the US-led war on terrorism (India offered US forces the use of Indian airbases during the military campaign in Afghanistan, among other acts). India began to insist that Pakistan play a larger role in curtailing "cross-border terrorism" in Kashmir and India itself. On 13 December 2001, the Indian Parliament was attacked by 5 suicide fighters. Fourteen people died in the raid, including the five attackers. India blamed the attacks on two Pakistan-based organizations, Lashkar-e-Taiba and Jaish-e-Muhammad, which the United States also listed as terrorist groups. Following the attacks on Parliament, diplomatic contacts were curtailed, rail,

bus and air links were severed, and close to 1 million troops amassed on India's and Pakistan's shared border, the largest military build-up since the 1971 war. The two nuclear-armed countries were on the brink of war. In January 2002, India successfully test-fired the Agni, a nuclear-capable ballistic missile off its eastern coast. In May, Pakistan test-fired three medium-range surface-to-surface Ghauri missiles, capable of carrying nuclear warheads. In June, the United States and the United Kingdom undertook a diplomatic offensive to avert war, and urged their citizens to leave India and Pakistan. In October, India announced its troops had begun withdrawing from Pakistan's border, but Pakistan stated it wanted proof of the pullback before starting its own.

On 27 February 2002, a group of Muslims in the town of Godhra in the state of Gujarat attacked and set fire to two train cars carrying Hindu activists returning from the disputed holy site of Ayodhya. The Hindu Vishwa Hindu Parishad (VHP) group was threatening to build a temple on the site in Ayodhya where activists tore down a 16th century mosque in 1992. Fifty-eight Hindus were killed in the 27 February attack. Starting the following day, Hindus attacked Muslims in Gujarat, leaving hundreds dead and tens of thousands displaced. In three months of communal violence, approximately 2,000 individuals were killed, mostly Muslims.

An upsurge in violence marked the run-up to state elections held in Indian-administered Jammu-Kashmir in September–October 2002. More than 800 people were killed in the violence. The elections were fought among pro-India parties, with separatists boycotting the elections. The elections resulted in an upset for the National Conference; it was the first time the party had been voted out of office since independence. The NC won 28 seats out of 87 in the State Assembly. The People's Democratic Party, which firmly stood against human rights abuses in Kashmir, emerged as victor, along with the Congress Party. India has 7 million troops amassed on the Line of Control in Kashmir. As of the end of 2002, more than 61,000 people had been killed in the conflict in Kashmir.

On 19 March 2003, the US-led coalition launched war in Iraq. The war has been seen to have set a precedent for authorizing pre-emptive strikes on hostile states. The notion that India and Pakistan might adopt such a policy toward one another has caused international concern. In April 2003, spokesmen from both India and Pakistan asserted that the grounds on which the US-led coalition attacked Iraq also existed in each other's country.

### 13 GOVERNMENT

India is a sovereign socialist secular democratic republic. Its constitution, which became effective 26 January 1950, provides for a parliamentary form of government, at the center and in the states. The constitution also contains an extensive set of directive principles akin to the US Bill of Rights. Legislative acts and amendments have weakened some of those guarantees, while a number of decisions by the supreme court have left some weakened and others—like the commitment to secularism and to representative government—strengthened. Suffrage is universal at age 18.

The parliament, or legislative branch, consists of the president, the Council of States (Rajya Sabha), and the House of the People (Lok Sabha). The Rajya Sabha has a membership of not more than 250 members, of whom 12 are appointed by the president and the remainder indirectly elected by the state legislatures and by the union territories for six-year terms, with one-third chosen every two years. The Lok Sabha has 545 directly elected members (530 from the states, 13 from the union territories) and two members appointed by the president to represent the Anglo-Indian community. More than 22% of the seats are reserved for so-called "backward classes," that is, schedule castes (formerly "Untouchables") and scheduled tribes. The Lok Sabha has a



maximum life of five years but can be dissolved earlier by the president; under the state of emergency proclaimed in June 1975, elections scheduled for early 1976 were postponed until 1977.

The president and vice president are elected for five-year terms by an electoral college made up of the members of both parliamentary houses and the legislative assemblies of the states. Legally, all executive authority, including supreme command of the armed forces, is vested in the president, as head of state, who, in turn, appoints a council of ministers headed by a prime minister. In fact, power is exercised by the prime minister who, as head of government, is chosen by legislators of the political party, or coalition of parties, that commands the confidence of the parliament. The prime minister forms—and the president then appoints—the council of ministers, consisting of cabinet ministers, ministers of state, and deputy ministers to formulate and execute the government program. The vice president serves as president of the Rajya Sabha and usually succeeds the president at the end of the latter's term.

By tradition, the presidency and vice presidency trade off between northern and southerner, although a Muslim and a Sikh—nonregional identifications—have also held these positions. P. V. Narasimha Rao from Andhra Pradesh became the first southerner to hold the office of prime minister in June 1991. In July 2002, A. P. J. Abdul Kalam was elected India's 11th president, garnering 90% of the electoral college vote. He was the scientist responsible for carrying out India's nuclear tests in 1998, and is a Muslim.

Elections at the state level are no longer timed to coincide with national elections, and their schedule has become erratic, as state governments have been more or less stable. But state elections have come to influence national politics. Hindu party victories in 1995 assembly elections in what were Congress Party (CP) strongholds precipitated the CP's ouster from majority status in 1996 national elections.

Moderate Hindu party leader A. B. Vajpayee emerged from the May 1996 election as the new prime minister. Deve Gowda became prime minister in 1996 after Vajpayee's government was given a vote of no confidence. Gowda's United Front, with support of the Congress Party, formed the country's first coalition government. However, Gowda's leadership ended in April 1997 when he, too, lost a parliamentary vote of confidence. He was succeeded by his foreign minister, I. K. Gujral, a compromise candidate of the United Front and the Congress Party. Gujral himself was forced to resign in November 1997 when the Congress withdrew its support. As neither Congress nor the BJP were able to form a government, India's president, Kocheril Ramayan Narayanan, dissolved parliament. (Narayanan himself made history when he was elected to office in July 1997, becoming the first president of India to come from the Dalit or "untouchable" community.) Following elections held in February–March 1998, A. B. Vajpayee of the BJP became prime minister at the head of a 14-party coalition government. Vajpayee remained in office for over a year, resigning in April 1999 when, after defections from the coalition, his government lost a vote of no confidence by one vote. In elections held in September–October 1999, however, Vajpayee was returned to office at the head of a BJP-led coalition called the National Democratic Alliance (NDA). By December 2002, Vajpayee's NDA governing coalition was comprised of 26 parties.

## 14 POLITICAL PARTIES

India began its independent existence with the Indian National Congress supreme at the center and in all state legislatures. In its various manifestations, it has controlled the government for most of the years since independence in 1947. Founded in 1885, the Indian National Congress, known after 1947 as the Congress Party (CP), was the most powerful mass movement fighting for independence in British India. It became the ruling party of a free

India by reason of its national popularity and because most leaders of the independence movement were among its members, including Indian first prime minister, Jawaharlal Nehru. In its progression from independence movement to ruling party, the CP spawned many offshoots and continues to do so to this date, as often for personal reasons as for matters of party policy. The first to do so was the socialist wing that split off shortly after independence to form a party in its own right, dividing again several times thereafter.

Other major parties at the time of independence included the Communist Party of India (CPI), with its origins in the peasants and workers parties of the past, representing, like them, the communist left. The CPI began the independence period under a cloud because of its Moscow-directed cooperation with the British during World War II. On the right were parties like the Hindu Mahasabha (HMS), doomed to ignominy when one of its kind killed Mahatma Gandhi in 1948. Within the political system, the HMS, nonetheless, reflected a vital Hindu nationalist strain that has seen several party iterations in the years since and continues to be force in the Hindi-speaking belt of north India. Parties on the left, right, and center have continued to divide or split off over the years, and more recently, with the decline of the Congress Party as an All-India national party, there has been a rise in the number of single state linguistic, sectarian, and regional parties capable of governing only at the state level but available for coalition building at the center.

Over time, ideology, as traditionally defined, has come to mean less and less in Indian politics even though use of the word socialism is widespread. The Congress Party platform supports a secular democratic state with planned economic and social development. In November 1969, as Indira Gandhi consolidated her political position as prime minister, she and her supporters split the party. Her splinter group called itself the New Congress Party and advocated a stronger socialist line than the other CP group. In elections held in March 1971, the New Congress Party (which later resumed calling itself the Congress Party) won an overwhelming majority in the Lok Sabha. Prime Minister Gandhi's declaration of a state of emergency in 1975, followed by the arrest of thousands of her political foes, led several opposition parties of otherwise divergent viewpoints to form the Janata (People's) coalition, which, campaigning against her "dictatorship," scored a major election victory in March 1977. The Janata government began a judicial inquiry into Mrs. Gandhi's activities as prime minister (along with investigations of her son Sanjay and others), denied her a parliamentary seat that she had won in a by-election in late 1978 and briefly had her jailed.

Rather than disgracing the former prime minister, these measures revived her popular following as the Janata coalition leadership began to unravel. Mrs. Gandhi and her reorganized Congress/I Party—"I" for Indira—reemerged as the nation's dominant political force, winning a large majority of seats in elections to the Lok Sabha in January 1980. Congress/I subsequently won control of 17 of 22 state governments.

Janata reverted to its three principal constituents: the Lok Dal, with strong caste support in certain rural areas; the Bharatiya (Indian) Janata Party (BJP), a descendant of the Hindu nationalist Bharatiya Jana Sangh Party (and heir to the HMS tradition); and the rump Janata Dal (JD), Congress in all but name, reflecting various populist, socialist, business, personal, and regional interests. Other active parties include the traditional Congress/S—"S" for Socialist—Party; the once Maoist, now nationalist, Communist Party of India/Marxist (CPI/M), which has long controlled governments in the states of West Bengal and Kerala; the pro-Moscow Communist Party of India (CPI); Telugu Desam, an Andhra Pradesh-based party; the All-India Dravida Munetra Kazaghham (AIDMK) of Tamil Nadu, the Akali Dal factions

representing Sikhs; the All-India Muslim League (AIML); and other ethnically or regionally based parties and groups.

In the 1990s, three changes took place in the government. In elections in the fall of 1989, the Congress/I lost its majority, and although it remained the largest single party, Rajiv Gandhi resigned as prime minister. Vishwamath Pratap (V. P.) Singh, leader of the Janata Dal, formed a government and became prime minister, with the help of two other parliamentary groups in December 1989. Eleven months later, he lost a confidence vote and was replaced by Chandra Shekhar, a former Congress leader, who formed a government with Congress/I support, only to resign himself four months later. During the 1991 election campaign that followed, former prime minister Rajiv Gandhi was assassinated, but the Congress Party/I was swept back into power under P. V. Narasimha Rao, a former minister in both Gandhi governments and Rajiv Gandhi's successor as party leader. Rao became prime minister in June 1991.

The election results of June 1991, as modified by party shifts later that year, established the following party standings in the Lok Sabha: Congress (I), 245; the Bharatiya Janata Party (BJP), 119; the CPI/M, 35; the Janata Dal Party (JDP) of V. P. Singh, 31; the breakaway Janata Dal (JD) of Ajit Singh, 20; the CPI, 14; the Telegu Desam, 13, the AIDMK, 11; others 38 (including five parties with fewer than 5), and nine vacancies. Congress strength rose to 256 by July 1993 when Rao narrowly survived a confidence vote, but in December, Ajit Singh and nine JD members of parliament joined the Congress Party, giving Rao a slender majority of 266 members (with 16 other seats vacant). Flux continued in June 1994 when the former prime minister V. P. Singh and 13 others left the JDP and sought recognition from the speaker of the house as a separate party.

Vajpayee had difficulty holding his government together amid several corruption scandals, however. He was replaced in 1996 by Deve Gowda, leader of the dozen small factions that formed the 176-seat United Front in the Lok Sabha. Gowda lost a no-confidence vote in April 1997 and resigned. He was replaced by Foreign Minister I. K. Gujral. The BJP rose to power as the country's most popular party in the 1996 elections, when it won 161 seats in the Lok Sabha and its leader, A. B. Vajpayee, was named prime minister. Meanwhile, Congress/I was in decline as corruption charges rocked the party, and won only 30% of the vote.

Several scandals affecting major political figures erupted in the summer of 1997. In June, Laloo Prasad Yadav, president of the Janata Dal was arrested on conspiracy charges in his home state of Bihar. Though he resigned from the Janata Dal, he subsequently formed the breakaway Rashtriya Janata Dal party. Former prime minister Narasimha Rao was charged with corruption and criminal conspiracy. Results of an investigation into the destruction of the mosque at Ayodhya in 1992 also resulted in criminal charges being brought against senior BJP figures such as L. K. Advani and the Shiv Sena's Bal Thackeray.

In May 1997, Rajiv Gandhi's widow, Sonja Maino, formally joined the Congress Party/I, a move many hoped would help restore the party's failing fortunes. Sitaram Kesri was reelected president of Congress/I in June. Within six months, Congress/I brought down the UF government after Gujral rejected its demand that the DMK, the Tamil Nadu-based party allegedly linked to Rajiv Gandhi's assassination, be expelled from the UF coalition. As neither Congress/I nor the BJP could form a coalition government, new elections were called for February–March 1998. Sonja Gandhi campaigned actively for Congress/I, but no party was able to gain an absolute majority in the elections. The BJP emerged as the largest party with 182 seats in the 545-seat Lok Sabha, followed by Congress/I with 142 seats. A. B. Vajpayee, parliamentary leader of the BJP, was appointed prime minister and asked to form a coalition government. He succeeded in putting together a fragile 14-party coalition that

survived a vote of confidence on 28 March by 13 votes. This narrow parliamentary majority, however, clearly hampered Vajpayee's legislative program. In July, for example, the government was forced to shelve a bill that would have reserved one-third of the seats in the Lok Sabha and state legislatures for women because of strong opposition from (mostly male) deputies.

Sonja Gandhi began to take a more active role in Congress politics in 1998, and shortly after the elections she was elected to the post of president of Congress/I. Towards the end of the year, Congress/I showed signs of recovery by regaining Delhi and Rajasthan, both traditional BJP strongholds, in regional elections. However, this did not carry over to the national elections resulting from the fall of Vajpayee's government in April 1999, following the AIDMK leaving the coalition. In the run up to the September–October 1999 elections, both Sonja Gandhi and her daughter actively campaigned for Congress. The party split, however, over the issue of whether a foreign-born individual (i.e. Sonja Gandhi) could become leader of the country. Gandhi resigned as president of Congress in May 1999, although the party refused to accept her resignation. Shortly afterwards, Congress/I expelled Sharad Pawar, P. A. Sangma, and Tariq Anwar, the chief opponents of Gandhi within the party.

Sonja Gandhi won a seat in Parliament in the October 1999 elections and was also elected the Congress/I parliamentary leader. The Gandhi name, however, did not halt the decline of Congress. The party won only 112 seats (compared to 142 in the 1998 elections) and with its allies controlled only 135 votes. The BJP claimed 182 seats, and once again A. B. Vajpayee was asked to form a government. He succeeded in putting together a coalition government, the National Democratic Alliance, which controlled 298 seats in the Lok Sabha. For the first time in four years, an Indian government—albeit a coalition government—appeared to have a decisive working majority in the legislature. As the leader of the BJP's moderate wing, Vajpayee has sought to control the party's more extreme Hindu nationalist members.

## 15 LOCAL GOVERNMENT

The Republic of India is a union of states. The specific powers and spheres of influence of these states are set forth in the constitution, with all residual or non-specified powers in the hands of the central government (the reverse of the US Constitution). The central government has the power to set state boundaries and to create and abolish states. The state governments are similar to the central government in form, with a chief minister and a cabinet responsible to the state legislature, which may be unicameral or bicameral. State governors, usually retired civil servants or politicians, are appointed by the president for a five-year term and act only on the advice of the state cabinet.

The constitution gives the president the power—on the advice of the prime minister—to dissolve a state legislature and dismiss a state government if no party commands the support of a majority or if the state's constitutional machinery is incapable of maintaining order. The Lok Sabha, which must approve each six-month extension of direct rule, acts as the state legislature during its imposition, governing through the governor. Termed as "President's Rule" in the constitution, this power derives from a provision for "Governor's Rule" in the Government of India Act of 1935 and survives in the Pakistan constitution of 1973 in that form. It was invoked for the first time in 1959 by Prime Minister Nehru, and on the advice of Indira Gandhi, who was then Congress Party president; in power herself, she invoked the power repeatedly, often for partisan political purposes and, especially in the early 1980s, in the wake of ethnic/communal violence in Punjab, Assam, and Jammu and Kashmir. Limitations on its partisan use were imposed in a Supreme Court decision in spring 1994.

Under the States Reorganization Act of 1956, there were 14 states and five union territories, organized, where appropriate, on linguistic grounds. Through a gradual process of reorganization and division, two former union territories have become states while new union territories have been created (there were seven as of 2003), and the number of states has grown to 28.

Administratively, the states and union territories are divided into districts, under the control of senior civil servants who are responsible for collecting revenues, maintaining law and order, and setting development priorities. Districts are further divided into subdivisions, and subdivisions into *taluks* or *tehsils*. State government and lower levels of representative councils vary in organization and function, but all are based on universal adult suffrage. Large towns are each governed by a corporation headed by a mayor; health, safety, education, and the maintenance of normal city facilities are under its jurisdiction. Smaller towns have municipal boards and committees similar to the corporations but with more limited powers. District boards in rural areas provide for road construction and maintenance, education, and public health. The constitution provides for the organization of village councils (*panchayats*), and nearly all the villages have been so organized. The panchayats are elected from among the villagers by all the adult population and have administrative functions and a judicial wing that enables them to handle minor offenses.

In the mid-1990s, there were several campaigns to form new states in India, carving new borders along factional lines in existing states. A promise by former Prime Minister Deve Gowda to create a new state in Uttar Pradesh in 1996 renewed separatist sentiments in several other states.

The Hindu nationalist party (BJP) proposed five new states in 1996, hoping to control their assemblies rather than fight political foes in larger entities. Both proposals ignore potentially chaotic consequences in favor of political gain; existing state boundaries were drawn on language differences, while there appears to be no motive other than politics for the boundaries suggested by the new proposals. On its return to power in 1998, the BJP government succeeded in drafting bills that created three new states (Chhattisgarh, Uttaranchal, and Jharkhand), but put on hold its plans for making Delhi, presently a Union Territory, a state. Chhattisgarh, Uttaranchal, and Jharkhand became India's three newest states in November 2000, raising the total from 25 to 28.

## 16 JUDICIAL SYSTEM

The laws and judicial system of British India were continued after independence with only slight modifications. The supreme court consists of a chief justice and up to 25 judges, appointed by the president, who hold office until age 65. The court's duties include interpreting the constitution, handling all disputes between the central government and a state or between states themselves, and judging appeals from lower courts.

As of January 2003, there were 18 high courts, subordinate to but not under the control of the supreme court. Each state's judicial system is headed by a high court (three high courts have jurisdiction over more than one state), whose judges are appointed by the president and over whom state legislatures have no control. High court judges can serve up to the age of 62. Each state is divided into districts; within each district, a hierarchy of civil courts is responsible to the principal civil courts, presided over by a district judge. The 1973 Code of Criminal Procedure, effective 1 April 1974, provides for the appointment of separate sets of magistrates for the performance of executive and judicial functions within the criminal court system. Executive magistrates are responsible to the state government; judicial magistrates are under the control of the high court in each state.

Different personal laws are administered through the single civil court system. Islamic law (*Shari'ah*) governs many

noncriminal matters involving Muslims, including family law, inheritance and divorce. There are strong constitutional safeguards assuring the independence of the judiciary. In 1993–94, the supreme court rendered important judgments imposing limits on the use of the constitutional device known as “President’s Rule” by the central government and reaffirming India’s secular commitment.

In Kashmir the judicial system barely functions due to threats by militants against judges and witnesses.

India accepts the compulsory jurisdiction of the International Court of Justice with reservations.

## 17 ARMED FORCES

The Indian Armed Forces have a proud tradition, having provided one million soldiers during World War I and two million in World War II battles in Asia, Africa, the Middle East, and Europe. The armed forces are entirely volunteer and consist of the regular army, navy, and air force; the territorial (reserve) army; and 13 different full-time or reserve special purpose paramilitary units for border, transportation, and internal defense. The home guard and provincial armed constabulary alone number over 1,000,000 while the Ministry of Home Affairs controls 167,400 riot police and 174,000 in the Border Security Force (BSF).

In 2002, armed forces personnel totaled 1,298,000. The army had 1,100,000 personnel, organized into three armored divisions, one mechanized division, 18 infantry divisions, nine mountain divisions, five independent armored brigades, five independent infantry brigades, three independent artillery brigades, four air defense brigades, and three engineer brigades. Armaments included 3,898 main battle tanks and 90 light tanks. The navy (including the naval air force and marines) had 53,000 personnel; naval vessels included 16 submarines, two aircraft carriers, seven destroyers, 13 frigates, five corvettes, 15 patrol boats, and 18 mine-warfare ships. The air force had 145,000 personnel and 701 combat aircraft. There is a coast guard of over 8,000 personnel, with 14 aircraft and 34 patrol craft. It is suspected that India possesses 60 nuclear weapons, and has the capability for producing more.

Budgeted defense expenditures in 2001 were \$12.1 billion or 2.5% of GDP. India provides personnel to four peacekeeping operations. Opposition forces number between 2,000 and 2,500.

## 18 INTERNATIONAL COOPERATION

India is a member of the Commonwealth of Nations. Even before its independence in 1947, India became a charter member of the UN on 13 October 1945, and it belongs to ESCAP and all the nonregional specialized agencies. India also has joined the Asian Development Bank and G-77, and has signed the Law of the Sea. It is a dialogue partner with the Association of Southeast Asian Nations (ASEAN).

India was a founder of the nonaligned movement and has pursued a formally neutralist foreign policy since independence. Relations between the United States and India have ranged from correct to cordial; relations with China, hostile during the early 1960s, have been normalized since 1976. India's primary ally among the superpowers had been the former USSR, with which a 20-year treaty of peace, friendship, and cooperation was signed in 1971. Indian armed forces and political missions have assisted in implementing truce and cease-fire agreements in Korea, Vietnam, Laos, Cambodia, the Middle East, Congo (formerly Zaire), and Cyprus. India also negotiated a settlement in Sri Lanka's civil unrest in July 1987, sending in troops to enforce the agreement.

Since independence, India has fought three wars with neighboring Pakistan, in 1947–48, 1965, and 1971. Relations between the two countries improved in the early 1980s. On 10 March 1983, India and Pakistan signed a five-year agreement for improving economic and cultural ties, which was viewed as a

major step in the normalization of their relations. Tension between India and Pakistan increased again in 1986–87, when both countries conducted military exercises near their common border in the sensitive Punjab region. Indo-Pakistan relations worsened again in 1990 and in the years immediately following as a consequence of Pakistan's support of Islamic insurgents in Indian Kashmir. In 1998 both countries became nuclear powers, conducting a series of underground nuclear tests. Tensions between them worsened again after an attack on the Indian Lok Sabha in December 2001, and both countries amassed approximately 1 million troops on their shared border. India blames two Pakistan-based militant Islamic organizations, Lashkar-e-Taiba and Jaish-e-Muhammad, for violence in Kashmir and India itself.

India became a founding member of the World Trade Organization on 1 January 1995.

## 19 ECONOMY

As of 2001, according to World Development Indicators, India had become the world's fourth-largest economy in purchasing power parity (PPP) terms, up from fifth place in 1999. Although in current dollars, India's GDP was only \$477.4 billion, in PPP terms, a calculation which takes account of the low price levels for goods and services in India compared to the United States, India's effective GDP equals \$2.9 trillion, over six times the nominal level. Annual per capita income, of course, remains very low even in PPP terms—\$2,540 (PPP) according to CIA estimates—but its new fourth-place rank does reflect the country's remarkable record of steady growth: an annual average of 6% growth since 1991 with a 10% reduction in the proportion of the population living in poverty. Severe impediments and future challenges remain, however. Over 60% of the labor force is still employed or underemployed in agriculture, which constitutes 25% of the GDP. Industry also contributes about 25% to GDP but employs only 17% of the labor force. Services account for the other 23% of the labor force, and the other half of the GDP, up from a 12.8% share in 1980. India's population growth dropped below 2% for the first time in four decades, but the growth rate for the working-age group 15 to 60 years olds continues to accelerate presenting the government policy makers with the need to accelerate job creation.

India is rich in mineral, forest, and power resources, and its ample reserves of iron ore and coal provide a substantial base for heavy industry. Coal is the principal source for generating electric power although hydroelectric and nuclear installations supply a rising proportion of India's power needs. The government also promotes considerable expansion in oil exploration and production. Anticipating a rapid growth in oil consumption in the near future, the government is actively promoting oil exploration and development. Since 1997, under its New Exploration and Licensing Policy (NELP), foreign companies have been permitted to participate in upstream oil exploration, long restricted to Indian-owned firms.

The Indian economy is a mixture of public and private enterprises. Under a planned development regime since independence, the public sector provided the impetus for industrialization and for absorption of sophisticated technology. Nevertheless, a large proportion of the total manufacturing output continued to be contributed by small, unorganized industries. In recent years, and especially since 1991, the government has placed greater emphasis on private enterprise to stimulate growth and modernization. Reflecting this policy shift, public enterprises accounted for only about 7% of the country's GDP in 1999, down from 23% in the mid-1980s. In December 1999, the government created the Ministry of Disinvestment and announced plans to disinvest in 247 companies owned by the central government down to a 26% share in most companies, excluding only three strategic sectors altogether: railways,

defense, and nuclear energy. In its first disinvestment deal, the government sold 51% equity in Bharat Aluminum Corp., Ltd. to the Indian company Sterlite Industries for \$118 million despite strong political opposition. In all, about \$530 million was received from disinvestment in 2000/01. In 2002/03 total receipts from disinvestment were only about 28% (\$717 million) of the Ministry's projected target \$2.5 billion. Sales included a strategic stake of Videsh Sanchar Nigam Ltd. (VSNL), India's premier international communications and internet service provider (ISP) company to the Tata Group, India's largest conglomerate; a strategic stake in IBP, the national petroleum marketing company, to Indian Oil; a strategic stake in Indian Petrochemical Company Ltd. (IPCL) to the Indian company, Reliance Industries; and a strategic share of Maruti Udyog Ltd. (MUL), India's top car maker with a 60% market share, to Suzuki Maintenance Corporation (SMC) of Japan, which was already MUL's technology provider and owned a 46% share, which it increased to 51% in the deal.

Following the proclamation of a state of emergency in June 1975, a 20-point economic reform program was announced. Price regulations were toughened, and a moratorium on rural debts was declared. A new campaign was mounted against tax evaders, currency speculators, smugglers, and hoarders. This program, which lapsed when Indira Gandhi was out of power (1977–80), was revised and incorporated into the sixth five-year plan (1980–85). The reforms were buttressed by a 30-month arrangement under the IMF's Extended Fund Facility (EFF), which made available SDR5 million (only SDR3.9 million actually drawn) 9 November 1981 to 10 May 1984. After the collapse of world oil prices in 1986, India's average annual growth increased to 6.2% on the latter half of the decade. This expansion was accompanied, however, by numerous persistent weaknesses: slow growth in formal sector employment, inefficiency and technological lags in the public sector, and increasing fiscal and balance of payments deficits, which by 1990 had produced double digit inflation. The oil shock accompanying the Gulf War catalyzed an acute balance of payments crisis in early 1991.

Swift stabilization measures taken by the newly elected government, including two stand-by arrangements with the IMF—a short four-month arrangement 18 January to 17 April 1991 with a SDR551 line of credit, and a larger, 8-month arrangement 31 October 1991 to 30 June 1993 with an SDR1,6456 million line of credit—proved highly successful. By mid-1992, foreign exchange reserves had recovered to a comfortable margin (equal to five months of imports; a decade later, in 2002, coverage was at 8 months of imports) and inflation declined from 13.1% in 1991–92 to 8.6% in 1993–94. Further reforms focused on trade liberalization, privatization and deregulation helped push GDP growth to an average of 6.5% for the five years 1995 to 1999. Accelerating growth sparked a return of double-digit inflation, reaching 13.1% in 1998/99, but a currency devaluation of almost 12% helped bring inflation down to 3.4% in 1999 (as measured by consumer prices). Economic growth slowed significantly in 2000/01 to around 4% reflecting both the global economic slowdown and also weak agricultural growth in India. The 2000/01 budget included a 30% increase on defense spending because of the conflict with Pakistan, increasing the public debt. The central government's fiscal deficit increased steadily from 1997/98 to 2001/02, from 4.9% of GDP to 6.1% of GDP. In 2001/02, however, growth recovered to around 5.5% largely due to a recovery in agriculture. In the more export-sensitive industrial sector, the growth rate was only 2.7%. In 2002/03 industrial growth recovered to an estimated 6.17%, while services increased 7.1%. Overall estimates of real growth for 2002/03 have been scaled back to 4.4%, however, from predictions of over 5%, mainly due to setbacks in agriculture because of a poor monsoon, 19% short in volume, the worst since 1987/88. The shortfall is even more

dramatic given that an 8% per year growth target was set for the Tenth Five-Year Plan, 2002–2007. The feasibility of achieving such a high annual growth rate was defended by the government largely in terms of the plan's concentration on agriculture where high percent gains seem attainable because of the widespread inefficiency.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 India's gross domestic product (GDP) was estimated at \$2.66 trillion. The per capita GDP was estimated at \$2,540. The average inflation rate in 2002 was 5.4%. 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 25% of GDP, industry 25%, and services 50%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$9.034 billion or about \$9 per capita and accounted for approximately 1.9% of GDP. Worker remittances in 2001 totaled \$11.36 billion. Foreign aid receipts amounted to about \$2 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$294. 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%. The richest 10% of the population accounted for approximately 33.5% of household consumption and the poorest 10% approximately 3.5%. It was estimated that in 2002 about 25% of the population had incomes below the poverty line.

## 21 LABOR

In 1999, India's active labor force totaled 406 million. In that year, 60% were employed in agriculture, 17% in industry, and 23% in services. The unemployment rate in 2002 stood at 8.8%.

In 2002, there were an estimated 13 to 15 million organized industrial workers, all belonging to the formal economy, which accounted for 30 million workers, or less than 10% of the total labor force. Most trade unions are affiliated with political parties. The right to strike is often exercised, but public sector unions are required to give 14 days notice prior to an organized strike. Employers are prohibited from discriminating against union activity, and collective bargaining is practiced.

Working hours are limited by law to 48 per week for adults with eight hour days. Minimum wages are set according to industry. By law, earned income also includes a cost-of-living allowance and an annual bonus. These regulations are only applicable to factories and all other establishments with 20 or more employees. Factory employment of children under 14 years of age is prohibited, although estimates place the number of child laborers as of 1999 at anywhere between 11 to 55 million. Many of them work in the hand-knotted carpet industry. Bonded labor was abolished in 1976, but is still prevalent. Estimates of the number of bonded laborers range as high as 40 million. Health and safety standards are not regularly enforced.

## 22 AGRICULTURE

In 1998, of the total land area of 297 million hectares (734 million acres), the net sown area was 169 million hectares (420 million acres), or about 57%. The irrigated area totaled 59 million hectares (145.8 million acres) in 1998. At least 10 million hectares (24.7 million acres) were redistributed under land reform programs during 1951–79. Agriculture employs about 60% of India's population and contributes about 25% to GDP.

Agricultural production increased at an average annual rate of 2.9% during the 1970s, 3.1% during the 1980s, and 3.8%

during 1990–98, mainly as the result of the "green revolution," which has made India basically self-sufficient in grain output through the use of improved hybrid seeds, irrigation, and fertilizers. Cereal production averaged over 104 million tons per year from 1979 to 1981; in 1999, production totaled 230 million tons. Rice leads all crops and, except in the northwest, is generally grown wherever the conditions are suitable. In 1999, 131.2 million tons of rice were produced on 44.8 million hectares (110.7 million acres). The combined acreage and production of other cereals, all to a large extent grown for human consumption, considerably exceed those of rice. These include jowar, a rich grain sorghum grown especially in the Deccan; wheat, grown in the northwest; and bajra, another grain sorghum grown in the drier areas of western India and the far south. A wheat crop of 70.8 million tons was harvested on 27.4 million hectares (67.7 million acres) in 1999. Vegetables, pulses, and oilseeds are the other main food crops. Oilseed production in 2000/01 included 4.9 million tons of cottonseed and 3.73 million tons of rapeseed.

Nonfood crops are mainly linseed, cotton, jute, and tobacco. The cotton crop in 2000 was 10.9 million bales (170 kg each) and was large enough to both supply the increasing demands of the domestic textile sector and provide export receipts. For centuries, India has been famous for its spices and today is one of the world's largest producers, consumers, and exporters of a wide range of spices. Of the 63 spices grown in the country, black pepper, cardamom, ginger, turmeric, and chilles are the most economically important. Since World War II (1939–45), India has been the world's largest producer of black pepper (19,641 tons exported in 2001). Pepper production is concentrated in the southern states of Kerala (65%), Karnataka (20%), and Tamil Nadu (15%).

India was the world's second-leading producer (after Brazil) of sugarcane in 1999, with an output of 282.3 million tons. Tea, coffee, and rubber plantations contribute significantly to the economy, although they occupy less than 1% of the agricultural land (in hill areas generally unsuited to Indian indigenous agriculture), and are the largest agricultural enterprises in India. Tea, the most important plantation crop, is a large foreign exchange earner, with an export value of \$367.2 million in 2001, based on exports of 177,603 tons. Production in 1999 was 749,000 tons, the highest in the world and 26% of global production. It is grown mostly in Assam and northern Bengal, but also in southern India. Coffee (265,000 tons in 1999) is produced in southern India, and rubber (550,000 tons in 1999) in Kerala. Leaf tobacco production totaled 702,000 tons in 1999.

Because of the ever-present danger of food shortages, the government tightly controls the grain trade, fixing minimum support and procurement prices and maintaining buffer stocks. The Food Corp. of India, a government enterprise, distributes 12 million tons of food grains annually and is increasing its storage capacity.

## 23 ANIMAL HUSBANDRY

The livestock population of India is huge and animals as a whole play an important role in the agricultural economy even though they often receive inadequate nourishment. Slaughter of cattle in India is prohibited in all but a few states since Hindus believe that cows and other animals may contain reincarnated human souls. The slaughter of buffaloes is not as offensive to the religious beliefs of Hindus, and buffaloes are slaughtered for meat.

In 2001 there were an estimated 219.6 million head of cattle, representing about 15% of the world's total and more than in any other country. There are eight breeds of buffalo, 26 cattle breeds, and numerous crossbreeds. The bovine inventory in 2001 also included 94.1 million buffalo. Other livestock in 2001 included 123.5 million goats, 58.2 million sheep, 17.5 million hogs, 900,000 camels, 750,000 asses, 800,000 horses, and 735 million chickens. Bullocks (steers) and water buffalo are important draft

animals. Dairy farming has made India self-sufficient in butter and powdered milk. Dairying in India is undertaken on millions of small farms, where one to three milk animals are raised on less than a hectare (2.5 acres), and yields consist of two to three liters of milk daily. To improve milk production, a dairy development program was begun in 1978 to build up the milch herd to 150 million crossbred cows. Milk output in 2001 from over 35 million dairy cows was estimated at 37.1 million tons, second in the world. Egg production in 2001 was 1,906,000 tons. The production of cattle and buffalo hides and goat- and sheepskins is a major industry. About 53,700 tons of wool were produced in 2001. Silk production that year amounted to 15,000 tons, second highest after China. Animal dung is also used for fuel and fertilizer.

## 24 FISHING

Fishing is an important secondary source of income to some farmers and a primary occupation in small fishing villages. Almost three-fifths of the catch consists of sea fish. The bulk is marketed fresh; of the remainder, more than half is sun-dried. Fish and fish products account for about 2.5–3% of the total export value. Deep-sea fishing is not done on a large scale. Inland fishing is most developed in the deltaic channels of Bengal, an area where fish is an important ingredient of the diet. In recent years, the government has been encouraging ocean fishing through the establishment of processing plants and the introduction of deep-sea craft. Fishing harbors have been built along the coasts of the Bay of Bengal and the Arabian Sea. Under the fifth national plan (1974–79), fish farming was encouraged through the creation of Fish Farmers' Development Agencies. Fish production achieved a new high of about 3.7 million tons at the end of the seventh national plan (1986–91).

The total fish catch in 2000 was 3,594,396 tons (eighth in the world), of which marine fish accounted for 2,797,682 tons and inland sources for 796,714 tons. Fish exports, still only a fraction of the potential, have shown a steady gain in recent years. In 2000, exports of fish products amounted to over \$1.4 billion.

## 25 FORESTRY

The major forestlands lie in the foothills of the Himalayas, the hills of Assam state, the northern highlands of the Deccan, the Western Ghats, and the Andaman Islands. Other forestlands are generally scrub and poor secondary growth of restricted commercial potential. India's forests are mostly broad-leaved; the most important commercial species are sal (10.9% of forest trees), mixed conifers (8.1%), teak (6.8%), fir (3.2%), chir-pine (2.4%), and upland hardwood (2.4%). In 2000 there were 64,113,000 hectares (158,423,000 acres) of forestland, according to a satellite survey. About 40% of the forest area is highly degraded and devoid of wood producing trees.

India's forests have historically suffered tremendous pressure from its large human and animal populations as a source of fuel wood, fodder, and timber. In recent decades, harvesting and encroachment resulted in a 2.3% reduction of forest land each year. According to the government's national forest policy, 33% of the land area should be covered by forest, but actual forest coverage is just 21.6%. About 138,000 hectares (341,000 acres) were planted annually during the 1980s under afforestation programs. During 1990–2000, the forested area grew by an annual average of 38,000 ha (94,000 acres). Most forests (98%) are owned by state governments and are reserved or protected for the maintenance of permanent timber and water supplies. The government has prohibited commercial harvesting of trees on public land, except for mature, fallen, or sick trees. In order to help meet the fuel needs of much of the population, harvesting dead and fallen branches is permitted in government forests, but this policy is widely violated. About 93% of the total timber cut in 2000 was burned as fuel.

The total timber cut in 2000 was 319.5 million cu m (11.3 billion cu ft). Production that year included (in million of cubic meters): sawn wood, 7.9; paper and paperboard, 3.8; wood-based panels, 0.4; and wood pulp, 1.6. Other forestry products include bamboos, canes, fibers, flosses, gums and resins, medicinal herbs, tanning barks, and lac. Imports of forest products nearly totaled \$1,028 million in 2000, and mainly consisted of newsprint (\$176.1 million), printing and writing paper (\$104.8 million), and recovered paper products (\$96.7 million).

## 26 MINING

Well endowed with industrial minerals, India's leading industries in 2002 included steel, cement, mining, and petroleum, and gems and jewelry comprised the country's second-leading export commodity. The minerals industry of India produced more than 80 mineral commodities in the form of ores, metals, industrial minerals, and mineral fuels and was among the world's leading producers of iron ore, bituminous coal, zinc, and bauxite, with 10% of world deposits. In 1997, total mineral production was valued at \$9.5 billion, or about 3.5% of GDP, which grew by 5.4% in 2001. Mineral resources contributed 2% to GDP in 2001. Minerals accounted for 20% of exports. An estimated 4,400 mines operated in the country. Most mines were small surface operations using only handtool methods. There were also 300 underground mines in the nonfuel sector, most of which were operated manually. Employment in the minerals industry was estimated at more than 1 million (4.5% of the employed labor force), with the public sector employing 90% of the total. Total exports represented 10% of GDP in 2001, with jewelry leading the growth. The country exploited 52 minerals—11 metallic, 38 non-metallic, and three mineral fuels. Increases in production were noted for bauxite, cathode copper, crude oil, iron ore, steel, and other minerals. Industrial mineral operations were unscathed by the January 2001 earthquake in Gujarat and Rajasthan; infrastructure repairs were under way. In 2001, India also produced lead, monazite, selenium, silver, ilmenite, rutile, tungsten, uranium, zircon, corundum, garnet, jasper, asbestos, barite (from the Cuddapah District mines, Andhra Pradesh), bromine, hydraulic cement, chalk, clays (including ball clay, diaspore, fireclay, and kaolin), feldspar, fluorspar, agate, aquamarine, emerald, ruby, spinel, graphite, kyanite, sillimanite, lime, magnesite, nitrogen, phosphate rock, apatite, ocher, mineral and natural pigments, pyrites, salt, soda ash, calcite, dolomite, limestone, quartz, quartzite, sand (including calcareous and silica), slate, talc, pyrophyllite, steatite (soapstone), vermiculite, and wollastonite.

Output of iron content in mined ore totaled 50.7 million tons in 2001, up from 44.9 in 1999. Iron ore reserves, estimated at 11,000 million tons of hematite ore containing at least 55% iron, were among the largest in the world. Principal iron ore output came from the rich fields along the Bihar-Orissa border, close to all major existing iron and steel works. Smaller amounts were mined in the Bababudan Hills of Karnataka and elsewhere. The joint venture Rio Tinto Orissa Mining Ltd. studied a new mining project, in the Gandhamardan/Malanjtoli areas of Orissa, that had ore reserves of 800 million tons and could start in 2006, produce 25 million tons per year by its fifth year, and have an eventual capacity of 50 million tons per year.

India's gross weight output of bauxite was 8.4 million tons in 2001, up from 6.1 in 1998. Bauxite deposits were estimated at 2,300 million tons. The state-owned National Aluminium Co. Ltd. (Nalco), which doubled its mining capacity to 4.8 million tons per year, was to be privatized by the government in 2001. Nalco's Panchpatmali Hills, Koraput District mines, in Orissa, had a production capacity of 2.4 million tons per year.

Production of zinc concentrates (zinc content) in 2001 was 146,000 tons. The state-owned Hindustan Zinc Ltd. (HZL),

which was for sale, planned to close its Sargipalli lead mine (150,000 tons per year capacity), in Orissa; HZL's Rampura Agucha mines (1.3 million tons per year lead-zinc ore capacity), in Rajasthan, were highly prized.

Gold and silver came largely from the Kolar fields of southeastern Karnataka, where the gold mines have reached a depth of more than 3.2 km and contained reserves of 55,000 kg of gold. The Geological Survey of India outlined three new gold resources—in the Dona block, Andhra Pradesh, 4.8 million tons averaging 1.9 grams per ton of gold; in the Banswar district, Rajasthan, 7.1 million tons averaging 2.96 grams per ton of gold; and in the Ghrhar Pahar block, Sidhi district of Madhya Pradesh, 3.3 million tons averaging 1.04 grams per ton of gold. The import duty on gold was reduced to curtail smuggling.

In 2001, 60,000 carats of diamonds were produced, up from 31,000 in 1997—industrial diamond output went from 20,000 to 43,000. Emerald and fissionable materials also were mined. Transworld Garnet India Pvt. Ltd, 74% owned subsidiary of Western Garnet International Ltd, of the United States, acquired lease rights to a mineral sands beach deposit in Andhra Pradesh with a resource base of 1.1 million tons of garnet and 0.8 million tons of ilmenite grading 24% and 20%, respectively. Western Garnet had been producing garnet in Tamil Nadu from reserves that would last for 20 to 25 years.

Content of manganese in mined ore produced was 600,000 tons in 2001. Manganese deposits were estimated at 154 million tons. Manganese was mined in Andhra Pradesh, Karnataka, the Nagpur section of Maharashtra, northward in Madhya Pradesh, along the Bihar-Orissa border adjoining the iron ore deposits, along the Maharashtra-Madhya Pradesh-Rajasthan border, and in central coastal Andhra Pradesh.

Mineral production in 2001 included 30,900 tons of mined copper ore, down from 39,900 in 1998; 1.68 million tons of gross weight chromite, compared with 1.95 in 2000 and 1.31 in 1998 (India was the largest exporter of chromite to China, selling more than 400,000 tons per year); 2.25 million tons of gypsum; and 1,300 tons of crude mica, down from 1,794 in 1997 (the best-quality mica came from Bihar).

There were extensive workable reserves of fluorite, chromite, ilmenite (for titanium), monazite (for thorium), beach sands, magnesite, beryllium, copper, and a variety of other industrial and agricultural minerals. However, India lacked substantial reserves of some nonferrous metals and special steel ingredients.

The government simplified excise duties and sold its stakes in state-owned enterprises. In 2001, it approved applications for \$700 million of foreign direct investment in the mining sector—poor infrastructure, delays in decision-making, labor laws, and high royalty rates were the most important factors. The West Bengal government was to give up its monopoly on mining rights and to announce a new mining policy to invite private investment; the state was known to contain apatite, coal, and dimension-stone resources. The Haryana government decided to grant mining leases for minor minerals by public auction. The new Ennore port, north of Chennai, in Tamil Nadu, was opened in 2001. A 1993 revision of the National Mineral Policy opened development of 13 minerals to private investment, both foreign and domestic. The exploration and processing of chrome, copper, diamond, gold, iron ore, lead, manganese, molybdenum, nickel, platinum-group metals, sulfur, tungsten, and zinc were exclusively controlled by the government.

## 27 ENERGY AND POWER

Petroleum reserves were estimated at 4.8 billion barrels in early 2002. From less than 100,000 tons in 1951, crude oil production rose to 37.1 million tons in 1995. Production was 1.9 million barrels per day in 2001, and expected to grow to 3.4 million barrels per day by 2010. Oil exploration and production are undertaken in joint ventures between government and private

foreign companies. Oil accounts for roughly 30% of India's energy consumption. Production of natural gas increased from 920 million cu m in 1973 to 21,300 million cu m in 1999.

In 2000, India consumed 509.9 billion kWh of electricity, of which 1.675 billion kWh was imported. Total installed electric capacity, which was 18,500 MW in 1974, rose to 111,777 MW in 2001. Production in 2000 was 512 billion kWh, of which 83.4% was from fossil fuels, 13.9% from hydropower, 2.6% from nuclear power, and the rest from other sources.

A 380 MW nuclear power station, India's first, was completed with US assistance in 1969 at Tarapur, near Mumbai (formerly Bombay). (The Tarapur plant has long been a center of controversy because of India's alleged failure to observe international safeguards to prevent the diversion of nuclear materials for military purposes.) Another nuclear station, in Rajasthan, began partial operations in the early 1970s, and two more plants were added by the end of the decade. In 1996, India had 10 operating reactors with a combined capacity of 1,695 MW, and four more under construction with a planned capacity of 808 MW. In 1999, the 740 MW initial phase of the Dabhol LNG-fired power plant began operation. (LNG is liquefied natural gas.)

Under the Commission on Additional Sources of Energy, within the Department of Science and Technology, research programs in biogas and biomass have been established. Demonstration projects in solar and wind energy were also undertaken in the early 1980s.

## 28 INDUSTRY

Modern industry has advanced fairly rapidly since independence, and the industrial sector now contributes 26.9% of the GDP. Large modern steel mills and many fertilizer plants, heavy-machinery plants, oil refineries, locomotive and automotive works have been constructed; the metallurgical, chemical, cement, and oil-refining industries have also expanded. Moreover, India has established its role in the high value-added sectors of the "new economy" sectors of information technology (IT), computer hardware, computer software, media and entertainment. Yet, though the total product is large, industry absorbs only about 17% of the labor force. Nine states—Maharashtra, West Bengal, Tamil Nadu, Gujarat, Uttar Pradesh, Bihar, Andhra Pradesh, Karnataka, and Madhya Pradesh—together account for most of Indian industry.

Industrial production expanded at an average annual rate of 5–6% between 1970 and 1990. Enforced austerity and demand management measures taken to stabilize rapidly worsening macroeconomic imbalances in 1991–92 slowed growth in the industry sector to 0% for that year. This was followed by a modest recovery to 1.9% growth in 1992–93, though declining to an estimated 1.6% in 1993–94, due to lingering effects of the earlier stabilization measures as well as poorer than expected demand in key export markets. In 1995–96, however, the index of industrial production (IIP) jumped 11.7%, led by a 13% increase in manufacturing output, the highest in 25 years. Growth in industrial production was 6.6% in 1997/98, but slowed to 4.1% in 1998/99 primarily due to the effects of the Asian financial crisis, but also in part to international sanctions imposed after its nuclear tests in 1998. A rebound evidenced in 6.6% growth in 1999/00 was cut short by the global slowdown in 2001, and the aftermath of the 11 September 2001 terrorist attacks on the United States, including intensifying regional tensions with Pakistan. Growth in industrial production slowed, to 5.1% in 2000/01 and to 2.7% in 2001/02.

Under the planned development regime of past decades, government directives channeled much of the country's resources into public enterprises. Private investment was closely regulated for all industries, discouraging investors from formal entry into the sector. However, industrial policy in recent years has shifted

towards privatization and deregulation. Since 1991 government licensing requirements have been abolished for all but a few “controlled areas”: distillation and brewing of alcoholic drinks, cigars and cigarettes, defense equipment, industrial explosives, hazardous chemicals, and drugs and pharmaceuticals. Under the government disinvestment program announced at the end of 1999, only three sectors remain completely closed to private investment: defense, atomic energy, and railway transport. The oil industry was opened to joint foreign investment in 1997 under the New Exploration and Licensing Policy (NELP). The first exploration blocks were auctioned off in two rounds in 2000, but the initiative none of the major international oil companies put in bids. The Ministry of Disinvestment was established in December 1999 to oversee the reduction of government shares in 247 state-owned companies, referred to as public sector units (PSUs), to a 26% stake. The first sale, in early 2000, was 51% of the Bharat Aluminum Company, Ltd. to Sterlite Ltd. of India. In May 2002, managerial control of Maruti Udyog Ltd. (MUL), India’s top carmaker claiming a 60% market share, was transferred to Suzuki Maintenance Corporation (SMC) of Japan, one of the few foreign buyers in the disinvestment program to date. SMC was already MUL’s technology provider in their joint venture and owned a 46% share of MUL. SMC took control by buying an additional 5% for about \$213 million, a move it had previously declined to take. The government plans to offer the rest of its shares on the stock market in 2004. Generally, the PSUs for which the government has found buyers in its disinvestment program have not been in the industrial or manufacturing sectors. Instead, the government has also steps to make their operations more competitive. In 2001, for instance, quantitative restrictions (QRs) were removed from about 715 imports, including cars, clothes watches, pins, dairy products, part of the accession process to the WTO. Credit and capital markets have also been greatly liberalized. Since 1992, all foreign companies have been on par with Indian companies in the area of foreign exchange solvency and on the stock market. With these reforms, private investment in industry is now proceeding at a steady if still modest pace, fostering increased competition in most of the mining and manufacturing sectors previously monopolized by parastatals. In 2001/02 net foreign direct investment (FDI) and net portfolio investment combined equaled \$6.3 billion, the highest on record.

Textile production dominates the industrial field, accounting for about 30% of export earnings while adding only 7% to 8% to imports. The textile industry employs approximately 35 million workers, making it the second-largest employer in India after agriculture. The sector is highly fragmented, containing about 7000 operational units encompassing a \$2.9 billion clothing industry, a \$16.3 billion finished fabrics industry, a \$1.9 billion industrial textile products industry, and a \$600 million household textile products industry. On a broad level it can also be divided between the natural fiber segment (cotton, silk, wool, jute, etc.) and the man-made fiber segment (polyester filament yarn, blended yarns, etc.). Cotton accounts for about 60% of both domestic consumption and exports. In terms of operations, since the 1980s decentralized powerlooms have produced an increasingly large share of production as centralized mills have declined. In 1986, there were about 638,000 decentralized powerlooms in operation, and by 2002 these had increased 260% to about 1,662,000, including an estimated 1,227,000 conventional shuttle looms, 400,000 drop-box semi-automatic looms, 30,000 automatic looms and 5,000 shuttleless looms (most second-hand imports). Anticipating the globalization of the textile market in 2004 when the multifiber agreement (MFA) is scheduled to be phased out, India’s National Textile Policy-2000 has pinpointed the weaving sector as the crucial link in the textile value chain (from fiber to fabric to garment to style) that needs to become more competitive. The Textile Program, announced in

the budget for 2001/02, included a program for modernizing the powerloom sector through the introduction of 50,000 shuttleless looms and 250,000 semiautomatic looms. The union budget for 2002/03 continued the program, adding an array of tax and duty exemptions for the benefit of powerloom operators. In 2002/03, the Office of the Textile Commissioner estimated that decentralized powerlooms accounted for 76.8% of cloth production (including hosiery); hand looms, 18%; mills, 3.7%; and others, 1.5%. By contrast, integrated mill operations, which perform spinning, weaving and processing in a central location, have stagnated and declined. In December 2002, 464 mills were closed compared to 220 in 1999/98, and hundreds more were slated for closure in 2003. There were 1,782 cotton and man-made fiber mills in 1999, only 192 of them were publicly owned. Mumbai (formerly Bombay), Ahmadabad, and the provincial cities in southern India lead in cotton milling, which accounts for about 65% of the raw material consumed by the textile industry. Jute milling is localized at Calcutta, center of the jute agricultural area. India is the world’s number one jute manufacturer. On average, textile production has been growing about 5% a year, although in 2001–02, with demand damped by a series of negative events—economic recession in the United States, a global economic slowdown, the 11 September 2001 terrorist attacks on the United States, the attack on India’s Parliament 13 December 2001 and sectarian violence in Gujarat—growth fell to 2.6%, compared with 4.4% in 2000/01, while textile exports fell 9%. However, by the end of 2002 and continuing into 2003 strong growth was evidenced. The production of textile products, including ready-made garments, grew 17% during the first quarter of 2003 year-on-year (YOY) and textile exports grew 8.48%.

India is the world’s tenth-largest steel producer. In 2001/02, according to the Ministry of Steel, it produced 4.08 million tons of pig iron (up 19.8%) and 30.64 million tons of finished steel (up 4.7%). The industry consists of seven large integrated mills and about 180 mini steel plants. Despite some signs of recovery 2002, all the major steel companies except the Tata Steel Corporation, the largest and oldest (founded in 1907), were facing serious financial problems due to overcapacity, cheap imports, and anti-dumping duties imposed by the United States in June 2001 that affected Indian exports. Nevertheless, during 2002 steel experienced a strong revival due to rising steel prices, increased domestic demand mainly from highway construction projects, and a 15.88% YOY rise in exports April to November 2002. The metallurgical sector also produced 818,000 tons of aluminum products, up from 640,000 tons in 1998/99. Automobile production, fed by both the steel and aluminum industries, has grown at an annual rates of close to 20% since liberalization in 1993, propelled by low interest rates, the expansion of consumer finance, and strong export demand. In 2002, 90.2% of vehicles produced were economy cars, and 9.8% were luxury cars and SUVs. From 1999/2000 to 2001/02, total production of cars, utility vehicles and commercial vehicles declined 4.7% from 875,179 to 834,071, while the production of two-wheelers increased 14.4%, from about 4.8 million to 5.47 million. Exports of all kinds of vehicles totaled 215,318 April to December 2002, a 68% YOY increase.

In the field of computers and consumer electronics production has been boosted by the liberalization of technology and component imports. In consumer durables, production in many cases grew at double-digit rates in 2002/02 (air conditioners, 25%; microwave ovens, over 20%; color TVs, over 15%, refrigerators, 12%; audio products and DVDs, 10%; washing machines, less than 5%), while computer production was up 36%. Computer software exports have grown as a compound growth rate of 50% per year for the past five years. In 2001/02, electronics hardware exports reached \$1.253 billion, up 22.6%



over 2001/02, while computer software exports reached \$7.8 billion, up 28.7%.

In the petrochemical sector, India has 18 refineries throughout the country with a total refinery capacity of more than two million barrels per day. Sixteen refineries are government-owned, one is jointly owned, and one, the 540,000-barrels-per-day Reliance Industries refinery at Jamnagar in Gujarat State, is privately owned. Almost half India's refinery capacity—now at 970,000 barrels per day—has been built since 1998, the government's goal being self-sufficiency in refined petroleum products. India's total refinery capacity should currently be enough to meet domestic demand, but because of operational problems it still has to import diesel fuel.

India's cement industry is the second-largest in the world, after China, with an installed capacity of 135 million tons as of March 2002. Exports have been very limited and only to immediate neighbors. The cement industry is highly fragmented, consisting of 120 large plants and 56 companies. In the last decade, government's portion of cement consumption decreased from 50% to 35% as the domestic housing market has grown. However, government financed infrastructure projects also helped sparked a growth in construction of about 9.7% YOY April to December 2002. In 2001/02, 106.9 million tons of cement were produced, of which 5.14 million tons were exported.

Like cement, India's food processing industry is oriented mainly toward the domestic market. It is India's fifth largest industry, with output reaching \$31 billion food in 2001/02. Structurally it consists of about 9000 operational units, accounts for about 6.3% of GDP, 13% of exports, and 18% of industrial employment (about 1.6 million workers).

India's fertilizer industry is the third largest in the world, and central to its efforts to increase agricultural productivity. The industry consists of 64 large fertilizer plants (39 producing urea, the most affordable fertilizer and 18 manufacturing diammonium phosphate or DAP, and other products), and 79 small and medium plants. As of 2000, installed capacity in nitrogen-based nutrients was 11 million tons and in phosphate-based nutrients, 3.6 million tons. Potassium-based nutrients must all be imported. Since 1992 the government has been gradually decontrolling the price of fertilizers. The prices of urea are scheduled to be completely decontrolled by 2006/07.

Overall industrial production grew at 2.7% in 2001/02, its weakest performance since the early 1990s. Manufacturing, accounting for about 80% of the sector, grew 2.9%, while the electricity segment increased 3.1% and mining only 1.2%. Figures for April to November 2002 showed signs of recovery, however, with a 5.3% YOY increase for industrial production overall, and 5.4% YOY growth in manufacturing.

## 29 SCIENCE AND TECHNOLOGY

Total expenditures on research and development amounted to 41.9 billion rupees in 1987–97; India had an estimated 149,000 scientists and engineers and 108,000 technicians engaged in research and development that year. Allocations are divided among government and industry, with government providing the major share. There has been a marked growth in the training of engineers and technicians. In 1987–97, science and engineering students accounted for 25% of college and university enrollments. Among the technological higher schools are the Indian Institute of Science at Bangalore and the Indian Institutes of Technology at Mumbai (formerly Bombay), Delhi, Kanpur, Kharagpur, and Madras. In 1947, there were 620 colleges and universities; by 1996, that number was nearly 7,700. One of the primary science and technology issues facing India is a "brain drain." Over 13,000 Indian students annually seek science and engineering degrees in the United States. Such an exodus may greatly reduce the quality of science and engineering education in India.

There are more than 2,500 national research and development institutions connected with science and technology in India. Principal government agencies engaged in scientific research and technical development are the Ministry of Science and Technology, the Council of Scientific and Industrial Research, the Ministry of Atomic Energy, and the Ministry of Electronics. The Council for Scientific and Industrial Research (founded in 1942) has 39 national laboratories under its umbrella. In March 1981, a cabinet committee, headed by the prime minister, was established to review science and technology programs and to decide future policy.

An importer of nuclear technology since the 1960s, India tested its own underground nuclear device for the first time in 1974 at Pokaran, in Rajasthan. In May 1996, India once again performed nuclear tests, dropping three bombs into 700-foot-deep shafts in the desert at Pokoran, with an impact of 80 kilotons. Pakistan responded later the same month with tests of its own. The first Indian-built nuclear power plant, with two 235-MW heavy-water reactors, began operating in July 1983, and an experimental fast-breeder reactor was under construction.

The country's largest scientific establishment is the Bhabha Atomic Research Center at Trombay, near Mumbai (formerly Bombay), which has four nuclear research reactors and trains 150 nuclear scientists each year. In the area of space technology, India's first communications satellite, *Aryabhata*, was launched into orbit by the former USSR on 19 April 1975, and two additional satellites were orbited by Soviet rockets in 1979 and 1981. The Indian Space Research Organization constructed and launched India's first satellite-launching vehicle, the SLV-3, from its Vikram Sarabhai Space Center at Sriharikota on 18 July 1980; the four-stage, solid-fuel rocket put a 35 kg (77 lb) Rohini satellite into near-earth orbit. Indian-built telecommunications satellites have been launched into orbit from Cape Canaveral, Florida, by the US National Aeronautics and Space Administration, by the European Space Agency, and from French Guiana. India has established a satellite-tracking station at Kavalur, in Tamil Nadu. In 1984, the first Indo-Soviet manned mission was completed successfully; in 1985, two Indians were selected for an Indo-US joint shuttle flight. An important international sciences program is the United States-India Fund (USIF), through which scientists and engineers participate in Indo-US joint research projects at 15 institutions in each country. Projects include earthquake, atmospheric, marine, energy, environment, medical, and life sciences.

Major learned societies in the country are the Indian Academy of Sciences (founded in 1934 in Bangalore), the Indian National Science Academy (founded in 1935 in New Delhi), and the National Academy of Sciences (founded in 1930 in Allahabad).

## 30 DOMESTIC TRADE

Under a nationwide scheme launched in 1979 for the distribution of essential commodities, goods are procured by the central government and then supplied to citizens. Each state has its own consumer cooperative federation; all of these groups are under the aegis of the National Cooperative Consumers Federation with the Minister of Consumer Affairs and Public Distribution. By 2000, more than 26,000 cooperatives and 681 wholesale stores shared in the distribution of sugar, edible oils, and grains in rural areas.

With the government's new emphasis on growth in private enterprise since the late 1980s, the expansion of privately-owned retail outlets have competed with the cooperative sector. Most private commercial enterprises are small establishments owned and operated by a single person or a single family; retail outlets are often highly specialized in product and usually very small in quarters and total stock. Often the Indian retail shop is large enough to hold only the proprietor and a small selection of stock; shutters fronting the store are opened to allow customers to

negotiate from the street or sidewalk. There are no major national chains but foreign franchises do exist. In most retail shops, fixed prices are rare and bargaining is the accepted means of purchase. Some department stores and supermarkets have begun to appear in shopping centers in major cities. These shopping centers usually offer entertainment and leisure activities as well.

India's domestic trade is widely influenced by informal and unreported commerce and income, known as "black money."

Government and business hours are generally from 10 AM to 5 PM, Monday through Friday, with a lunch break from 1 to 2 PM. Larger shops in Delhi are open from 9:30 AM to 1:30 PM and from 3:30 to 7:30 PM. Normal banking hours are from 10 AM to 4 PM on weekdays and from 10 AM to 12 noon on Saturdays.

### 31 FOREIGN TRADE

Initially, India's foreign trade followed a pattern common to all underdeveloped countries: exporting raw materials and food in exchange for manufactured goods. The only difference in India's case was that it also exported processed textiles, yarn, and jute goods. Until the late 1980s, the government's strongly import substitution-oriented industrial policy limited the significance of exports for the Indian economy, and while exports have become more important, they remain only about 8% of national income. With imports exceeding exports almost continuously in the 1970s and 1980s, India registers a chronic trade deficit. Stabilization and structural adjustment measures taken in 1991, including a 50% currency devaluation, have improved the country's balance of trade position by depressing imports and making exports more competitive in the world market. Given the country's relatively well-developed manufacturing base, items like textile goods, gems and jewelry, engineering goods, chemicals, and leather manufactures now comprise the country's leading exported items, replacing jute, tea, and other food products that dominated its export base in the 1960s and early 1970s.

In 1999 India's imports were distributed among the following categories: India's exports are dominated by textiles, followed by agricultural products, gems and jewelry, and engineering goods. Major imports include petroleum and petroleum products, gold and precious stones, machinery, chemicals, and fertilizers.

Consumer goods	2.6%
Food	6.8%
Fuels	30.8%
Industrial supplies	40.3%
Machinery	14.2%
Transportation	2.8%
Other	2.4%

Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	8,380	3,562	4,818
China (inc. Hong Kong)	3,025	2,105	920
United Arab Emirates	2,074	2,333	-259
United Kingdom	2,030	2,706	-676
Germany	1,732	1,841	-109
Japan	1,682	2,535	-853
Belgium	1,335	3,680	-2,345
Saudi Arabia	742	3,015	-2,273
Singapore	668	1,534	-866
Malaysia	446	2,023	-1,577

### 32 BALANCE OF PAYMENTS

India has a chronic deficit on current accounts. What bridges the gap between payments and receipts is mainly external aid (especially nonproject assistance), tourism earnings, and remittances from Indians working abroad. Heavy imports of food

grains and armament purchases caused a decline in India's foreign exchange reserves in the mid-1960s. An economic recovery from 1968-69, however, eased the problem, and by September 1970, foreign exchange reserves amounted to \$616 million, as compared with \$383 million by December 1965. Reserves declined to \$566 million by the end of 1972 but increased to \$841 million as of December 1975, despite massive deficits on current accounts, attributable to the quadrupling of oil import prices during 1973-74. Foreign exchange reserves declined from \$6,739 million at the end of 1979 to \$3,476 million as of November 1982 but subsequently rose to \$5,924 million by March 1987. The Gulf War crisis worsened the ratio of current account deficit to GDP. Foreign exchange reserves plummeted because of export losses in Kuwait, Iraq, and other nations. Remittances from Indian workers fell, and sudden price increases for oil imports caused an estimated loss to India of over \$2.8 billion in earnings. By November 1993, however, India's foreign exchange reserves had risen to \$8.1 billion, the highest level since 1951. A substantial reduction in the trade deficit, increased inflows from foreign institutional investors, a stable exchange rate, and improved remittances all contributed in the recovery of reserves. Although export growth remained strong, the current account deficit tripled from 1993-94 to 1995-96. The increase was attributed to a continuing surge in imports and higher debt service requirements. However, between 1995 and 1998 the current account deficit shrank to about 1% of GDP due to increased textile exports and a liberalizing trade regime. India's total external debt in 2001 was estimated at \$100.6 billion. In 2000, the external debt-GDP ratio stood at around 20.7%, down from 41% in 1991/92. In the early 2000s, India's exports to East and Southeast Asia increased, including to Japan and South Korea. High growth rates were registered for textiles, chemicals and related products, engineering goods, and leather and manufactures.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of India's exports was \$44.5 billion while imports totaled \$53.8 billion resulting in a trade deficit of \$9.3 billion.

The International Monetary Fund (IMF) reports that in 2000 India had exports of goods totaling \$43.1 billion and imports totaling \$55.3 billion. The services credit totaled \$18.3 billion and debit \$19.9 billion. The following table summarizes India's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>-4,198</b>
Balance on goods	-12,193
Balance on services	-1,582
Balance on income	-3,876
Current transfers	13,453
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>9,616</b>
Direct investment abroad	-335
Direct investment in India	2,315
Portfolio investment assets	...
Portfolio investment liabilities	1,619
Other investment assets	-1,136
Other investment liabilities	7,152
<b>Net Errors and Omissions</b>	<b>670</b>
<b>Reserves and Related Items</b>	<b>-6,087</b>

### 33 BANKING AND SECURITIES

A well-established banking system exists in India as a result of British colonialism. The Reserve Bank of India, founded in 1935 and nationalized in 1949, is the central banking and note-issuing authority. The Reserve Bank funds the Deposit Insurance and Credit Guarantee Corporation, which provides deposit insurance coverage to the banking sector. The largest public-sector bank is

the State Bank of India, which, at the end of 1996, accounted for one-third of income. Banks operating in the public sector account for 75% of commercial banking, while private banks take 15% of the market and foreign banks account for the remaining 10%. In 1997, 58% of commercial banks operated regionally, extending credit to small borrowers in rural areas. Scheduled banks maintain branches, mainly in the major commercial and industrial centers of Maharashtra, West Bengal, Uttar Pradesh, and Tamil Nadu states and the Delhi territory. Over 100 branches of Indian commercial banks operate overseas as well, primarily in the United Kingdom, United States, Fiji, Mauritius, Hong Kong, and Singapore. As of July 2000, there were 45 foreign banks in India with 180 branches, as well as 26 foreign representative offices. Total deposits in commercial banks reached \$206 billion in 2000-01.

The cost of borrowing remains very high, because of bad debts and non-performing assets. Most Indian banks lend approximately 30% to 40% of their capital to the government of India, and over 80% of investment is in government securities. In an attempt to regulate lending practices and interest rates, the government encouraged the formation of cooperative credit societies. Long-term credit is provided by the cooperative land development banks. Nonagricultural credit societies and employees' credit societies supply urban credit. A process of gradual liberalization is being applied to government institutions that supply most medium- and long-term credit. These term-lending institutions also control about 30% of all share capital and act as a channel for most foreign borrowing by the private sector. The main bodies are the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corp. of India (ICIC), and the Export-Import Bank of India (Eximbank). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$81.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$283.4 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

The main stock exchanges are located in Calcutta, Mumbai (formerly Bombay), and Madras, and there are secondary exchanges in Ahmadabad, Delhi, Kanpur, Nagpur, and other cities. The Securities and Exchange Board of India supplies regulation of the stock market. These regulations are not strict, and at times margin trading and other questionable practices have tended to produce wild speculation. Rules favor exchange members rather than public protection or benefit. Brokerage and jobbing are commonly combined. Of India's 21 stock exchanges, the Mumbai Stock Exchange (BSE) and National Stock Exchange (NSE) are the most important. There are more than 5,000 companies listed in Mumbai (formerly Bombay), the largest on the Indian market and on this criterion the largest outside New York. Total market capitalization on the BSE's 5,795 listed companies was R5.3 trillion as of 2001. The NSE, however, is perceived as more transparent, has faster trading cycles, more timely settlements, and is in the process of setting up a share depository. Major efforts have been made to strengthen the stock market institutionally and make it less like a casino.

In 1996-97 negative market sentiment, particularly among foreign institutional investors, took the overall price earnings ratio down from 19.6 in June 1996 to 11.3 in November. In the two years ending October 1996, all but 436 of the 2,531 most-traded shares lost over half their value; more than 1,000 lost over 80% of their value. The market continued to lose ground in 1997 and 1998 due to the Asian financial crisis. In 1999-2000, though, both the BSE and the NSE gained approximately 40% in market share value due to the growth in information technology (IT) stocks. Between 1998 and 1999 alone, the local S&P CNX Index

grew 97.8%, but then dropped about 23-24% in each of the next two years. The S&P IFCG and IFCI Indexes also dropped about 20-30% in 1999 and 2000.

### 34 INSURANCE

The life insurance business was formally nationalized on 1 September 1956 by the establishment of the Life Insurance Corp. of India (LIC), which absorbed the life insurance business of 245 Indian and foreign companies. LIC also transacts business in certain African and Asian countries where there are large Indian populations. The general insurance business was nationalized as of 1 January 1973, and all nationalized general insurance companies were merged into the General Insurance Corp. (GIC) of India. GIC serves as the parent company for the four operating insurers, the New India Assurance Company, the Oriental Fire and General Insurance Company, the National Insurance Company, and the United India Insurance Company.

In 1997, despite repeated promises to allow private insurers into the industry, an announcement on privatization in the financial services sector was postponed in the face of institutional resistance. The unions and left-wing parties led a struggle to stop an opening up of the insurance sector. They were alarmed by government plans to introduce legislation that would set up an independent Insurance Regulatory and Development Authority (IRA). Under the Insurance Regulatory and Development Authority Act of 1999, the IRA finally gained the power to issue licenses to private insurance companies in 2000 to Indians and foreigners. In India, third-party auto liability, public liability for hazardous material handling, workers' compensation, and third-party liability for inland water vessels are all compulsory.

### 35 PUBLIC FINANCE

The government's financial year extends from 1 April to 31 March, and the budget is presented to the parliament on the last day of February. The executive branch has considerable control over public finance. Thus, while parliament can oversee and investigate public expenditures and may reduce the budget, it cannot expand the budget, and checks exist that prevent it from delaying passage.

Budgets in recent decades have reflected the needs of rapid economic development under rising expenditures of the five-year plans. Insufficient government receipts for financing this development have led to yearly deficits and a resulting increase of new tax measures and deficit financing. The Gulf crisis, increased interest payments, subsidies, and relief in 1991 caused the central government's fiscal deficit to reach 9% of GDP. It fell to 5.7% in 1992-93 but rose to 7.3% of GDP in 1993-94. Principal sources of government revenue are customs and excise duties and individual and corporate income taxes. Major items of expenditure are defense, grants to states and territories, interest payments on the national debt, and economic, social, and community services. High interest rates, 8% inflation, slow industrial growth, and weak foreign investment prompted the government to recommend dramatic new initiatives in the 1997-98 budget, including cuts in taxes and duties. The proposed budget projected a 15% increase in expenditures to \$65 billion and a reduction in the deficit to 4.5% of GDP. While expenditures were cut, the budget deficit actually grew in 1997-98 to about 8.5% of the GDP due to currency devaluation and the Asian financial crisis. The budget for 2000 included a 30% increase on defense spending due to the Pakistani conflict.

Although applauded by the business community as market-friendly, some observers were chagrined by the 2000 budget's failure to squarely tackle infrastructure reforms. Most analysts agree that India spends too much on current expenditures and not enough on public investment. India suffers from inadequate roads and ports, a substandard educational system, and unreliable power supplies.

The US Central Intelligence Agency (CIA) estimates that in 2001/2002 India's central government took in revenues of approximately \$48.3 billion and had expenditures of \$78.2 billion including capital expenditures of \$14 billion. Overall, the government registered a deficit of approximately \$29.9 billion. External debt totaled \$100.6 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%	48,300
Tax revenue	73.1%	35,306
Non-tax revenue	22.6%	10,932
Capital revenue	4.0%	1,953
Grants	0.2%	109
EXPENDITURES	100.0%	78,200
General public services	6.1%	4,793
Defense	15.6%	12,202
Education	2.2%	1,739
Health	1.8%	1,405
Housing and community amenities	4.4%	3,480
Economic affairs and services	14.6%	11,386
Other expenditures	27.4%	21,412
Interest payments	27.9%	21,784

### 36 TAXATION

Taxes are levied by the central government, the state governments, and the various municipal governments. The sources of central government tax revenue are union excise duties, the central value-added tax or CENVAT, corporate and personal income (nonagricultural) taxes, wealth taxes, and customs duties. The gift tax was abolished in January 1998. State government sources, in general order of importance, are land taxes, sales taxes, excise duties, and registration and stamp duties. The states also share in central government income tax revenues and union excise duties, and they receive all revenues from the wealth tax on agricultural property. Municipal governments levy land and other property taxes and license fees. Many also impose duties on goods entering the municipal limits. There is little uniformity in types or rates of state and municipal taxes.

The lowest level of income subject to taxation was lowered to ₹50,000 for individuals in 2000, less than half the previous level. Income tax rates are progressive and form four brackets: 0% on taxable income to ₹50,000 (\$1,035); 10% on taxable income between ₹50,000 and ₹60,000 (\$1,240); 20% on income between ₹60,000 and ₹150,000 (\$3,000) plus ₹1000 (\$20); and 30% on income above ₹150,000 plus ₹19,000 (\$390). In 2002/03, surcharges of 12% and 17% on incomes of ₹60,000 and ₹150,000, respectively, were replaced with a 2% surcharge on all incomes above ₹60,000.

Corporate income tax for domestic companies as of 1 April 2001 is 35% plus a 5% surcharge, and for foreign companies 40% plus a 5% surcharge, down from 48%.

The wealth tax is one percent of wealth exceeding ₹1,500,000 (\$31,000). Interest income is taxed at 10%; rental income; capital gains at 20% at 15%; and winnings from lotteries and horse races at 30%. There is not tax on dividends.

The central government imposes a 16% value-added tax (VAT) called the CENVAT introduced in 2001/02. The CENVAT has not been fully implemented throughout India; this is scheduled for completion in 2005.

For the 2003/04 Union Budget, the excise structure was rationalized into four tiers: exempt items many of which had

carried 4% rates (like umbrellas, band-aids, toys, corrective glasses, CDs); 8% (like pressure cookers, buckets, dental chairs); 16% (the standard VAT rate applied to most items), and 24% reduced from 20% to 50% on polyester filament yarn, motor cars, utility vehicles, and replacement tires. Special Excise Duties of 32% are applied to aerated soft drinks and concentrates, pan masala, and chewing tobacco.

As of 1 April 2003, instead of being 100% tax free, profits and gains derive from Software Technology Parks of India (STPIs) and export oriented units (EOUs) will only be 90% tax-free.

### 37 CUSTOMS AND DUTIES

The majority of imports and some exports are subject to tariffs. There are both revenue and protective tariffs, although the former are more important and have long been a major source of central government income. The Indian government has been steadily reducing tariff rates in order to increase trade and investment. A 35% tariff ceiling was set in the 2001–2002 budget. However, India's tariffs are still among the highest in the world. Additional, special duties can more than double the barriers to importing a product, including textiles and apparel. Gold is taxed at an added rate of 9% at the state level and at least an added 3% at the local level. Indians spend more money on gold than anything but oil, at a level of \$7 billion in 2000. India intends to reduce tariff rates to a peak of 20% by the year 2005.

### 38 FOREIGN INVESTMENT

Until recently, foreign investment remained closely regulated. Rules and incentives directed the flow of foreign capital mainly toward consumer industries and light engineering, with major capital-intensive projects reserved for the public sector. Under the Foreign Exchange Regulation Act of 1973, which went into effect on 1 January 1974, all branches of foreign companies in which nonresident interest exceeded 40% were required to reapply for permission to carry on business; most companies had reduced their holdings to no more than 40% by 1 January 1976. Certain key export-oriented or technology-intensive industries were permitted to maintain up to 100% nonresident ownership. Tea plantations were also exempted from the 40% requirement. Although the government officially welcomed private foreign investment, collaboration and royalty arrangements were tightly controlled. Due to the restrictiveness of these policies, foreign investment remained remarkably low during the 1980s, ranging between \$200 and \$400 million a year.

Government reform measures in mid-1991 changed this picture significantly. Under the New Industrial Policy, the amount of money invested in the country doubled annually from 1991 to 1995. In 1997 the New Exploration and Licensing Policy (NELP) was announced permitting the participation of foreign oil companies in upstream exploration and development of oil and gas resources. In 2000, the first exploration blocks were awarded in two rounds of bidding, but the major international oil companies (BP, Shell, ExxonMobil) have yet to become involved. Effective 1 April 2001, imports of crude oil and petroleum products were liberalized, with state-run enterprises losing their exclusive right to import certain petroleum products for domestic consumption. Also in 2001, India removed quantitative restrictions (QRs) from 715 items (147 agricultural products, 342 textile items, and 226 manufactured goods, including automobiles) in compliance with WTO standards. Under the New Industrial Policy as amended most sectors have been opened for 100% foreign investment. Sectors such as banking, telecommunications, and print media are still restricted. In some restricted sectors, foreign investment up to 49% or 74% is allowed in the equity of an Indian joint venture company. Recently the requirement prior approval by the Reserve Bank of India was removed from enterprises falling within categories allowing 100% foreign investment.

India has eight export processing zones (EPZs) designed to provide internationally competitive infrastructure and duty-free, low-cost facilities for exporters. Foreign investors in some industries can operate in EPZs, export oriented units (EOUs), special economic zones (SEZs) and Software Technology Parks of India (STPIs). Under the Market Access Initiative of 2001, greater access to SEZs was afforded, although as of 1 April 2003 profits and gains derived from the STPIs and EOUs would only be 90% tax-free. SEZs are regarded as foreign territory for purposes of duties and taxes and sector caps that limit foreign direct investment (FDI) in different industries do not apply in the SEZs. In any case, the corporate tax rate on foreign companies was reduced to 48% to 40%, and the peak customs rate was reduced from 35% to 30%. Other liberalizing steps in the 2002/03 budget include the removal of price controls on petroleum products, the removal of price controls from all but 99 drugs, and permission for foreign banks to set up subsidiaries instead of only branches. In November 1999 the government announced its intention to disinvest in 247 state-owned enterprises to the general level of 26% ownership, and established the Ministry of Disinvestment. Although the program has involved the transfer of significant amounts of equity and management control from the government to private sector, it has yet to generate appreciable foreign investment. Despite the trend towards liberalization, India's foreign investment regime remains complex and relative restricted. Although FDI has increased, average a net \$2.64 billion per year 1997/98 to 2001/02, the inflow is still small compared to China, the most relevant comparison, where FDI is running \$30 billion to \$40 billion a year. The net flow dropped to \$1.8 billion in 2000/01, and then recovered to a net \$3.4 billion in 2001/02. Net portfolio investment, \$1.8 billion in 1997/98, turned negative in 1998/99, at net -\$100,000. Over the next three years, however, the net portfolio inflow averaged about \$3 billion.

Statistics on FDI for India show Mauritius as consistently the largest source, averaging about \$700 million per year from 1995 to 2000, with the US in second place, averaging about \$383 million a year. However, most of the investments credited to Mauritius are actually from American companies seeking to take advantage of its lower withholding taxes or exemptions on payments of royalties, dividends, technical service fees, interest on loans and capital gain by Indian joint venture companies under the terms of the Double Tax Agreement (DTA) between India and Mauritius. From 1991 to 2001 about 10% of FDI has come from the US and 20% from Mauritius. The third-, fourth-, and fifth-largest sources 1995 to 2000 were Japan (annual average \$138.3 million), Germany (annual average \$115.8 million), and the United Kingdom (annual average 78.2 million). Foreign investment through the stock market is limited to 30% to 40%.

### 39 ECONOMIC DEVELOPMENT

Under a series of five-year plans through 2000, the government became a participant in many industrial fields and increased its regulation of existing private commerce and industry. Long the owner-operator of most railway facilities, all radio broadcasting, post, and telegraph facilities, arms and ammunition factories, and river development programs, the government reserved for itself the right to nationalize any industries it deemed necessary. Yet the government's socialist approach was pragmatic, not doctrinaire; agriculture and large segments of trade, finance, and industry remained in private hands. Planning is supervised by an eight-member planning commission, established in 1950 and chaired by the prime minister.

India's first four five-year plans entailed a total public sector outlay of R314.1 billion. The first plan (1951–56) accorded top priority to agriculture, especially irrigation and power projects. The second plan (1956–61) was designed to implement the new industrial policy and to achieve a "socialist pattern of society."

The plan stressed rapid industrialization, a 25% increase in national income (in fact, the achieved increase was only 20%), and reduction of inequalities in wealth and income. The focus of the third plan (1961–66) was industrialization, with 24.6% spent on transportation and communications and 20.1% on industry and minerals. Drought, inflation, and war with Pakistan made this plan a major disappointment; although considerable industrial diversification was achieved and national income rose, per capita income did not increase (because of population growth), and harvests were disastrously low. Because of the unsettled domestic situation, the fourth five-year plan did not take effect until 1969. The 1969–74 plan sought to control fluctuations in agricultural output and to promote equality and social justice. Agriculture and allied sectors received 16.9%, more than in any previous plan, while industry and minerals received 18.5%, transportation and communications 18.4%, and power development 17.8%, also more than in any previous plan.

The fifth plan (1974–79) aimed at the removal of poverty and the attainment of self-reliance. A total outlay of R393.2 billion was allocated (26% less than originally envisaged), and actual expenditures totaled R394.2 billion. Once again, the emphasis was on industry, with mining and manufacturing taking 22.5%, electric power 18.7%, transportation and communications 17.2%, and agriculture 12.1%. The fifth plan was cut short a year early, in 1978, and, with India enmeshed in recession and political turmoil, work began on the sixth development plan (1980–85). Its goal, like that of the fifth, was the removal of poverty, although the planners recognized that this gigantic task could not be accomplished within five years. The plan aimed to strengthen the agricultural and industrial infrastructure in order to accelerate the growth of investments and exports. Projected outlays totaled R975 billion, of which electric power received 27.1%, industry and mining 15.4%, transportation and communications 12.7%, and agriculture 12.2%. The main target was a GDP growth rate of 5.2% annually. The seventh development plan (1985–90) projected 5% overall GDP growth (which was largely achieved and even exceeded) based on increases of 4% and 8% in agricultural and industrial output, respectively. Outlays were to total R1,800 billion.

The eighth development plan (for 1992–97), drafted in response to the country's looming debt crisis in 1990–91, laid the groundwork for long-term structural adjustment. The plan's overall thrust was to stimulate industrial growth by the private sector, and thereby free government resources for greater investment in basic infrastructure and human resources development. In addition to liberalized conditions for private and foreign investment, the foreign exchange system was reformed, the currency devalued, the maximum tariff reduced from 350% to 85%, import barriers generally loosened, and those for key intermediate goods removed altogether. Reform of the tax system, reduction of subsidies, and restructuring of public enterprises were also targeted. While the eighth plan generally supported expansion of private enterprise, unlike structural adjustment programs in other developing countries, it did not stipulate a large-scale privatization of the public sector.

As the eighth plan came to an end in 1997 most analysts proclaimed it a success; economic growth averaged 6% a year, employment rose, poverty was reduced, exports increased, and inflation declined.

The ninth development plan (1997–2002) focused on the redistribution of wealth and alleviation of poverty, the further privatization of the economy and attraction of foreign investment, and the reduction of the deficit. Overall there were improvements in the reform era including an increase in the GDP growth rate from an average of about 5.7% to about 6.1% in the Eighth and Ninth Plan periods, a reduction of the percent in poverty from a third of the population to a fourth, increased literacy from 52% in 1991 to 65% in 2001, and India's

emergence as a competitor in state-of-the-art technologies of the new information age economy. However, persistent inefficiencies—unemployment and underemployment, and welfare deficiencies—remained. Moreover, since 1998 a series of domestic and international shocks have brought a disturbing deceleration to India's economic growth.

In the tenth five-year plan, 2002–2007, the government set the ambitious target of achieving an average 8% growth, above the level achieved during the ninth plan and well ahead of the 5% to 5.5% growth forecast for 2002/03. Other monitorable economic targets include a reduction of the poverty rate by 5% by 2007, and by 15% by 2012; providing gainful and high-quality employment at least equal to the projected increases in the labor force; increase in forest and tree cover to 25%, in 2007 and to 33% by 2012; all villages with sustained access to potable water by 2007; and cleaning of all major polluted rivers by 2007. Agricultural development is viewed as the core element of the tenth plan with attention to sectors most likely to create employment opportunities. These include agriculture in its extended sense, construction, tourism, transport, small-scale industries (SSI), retailing, IT, and communications enabling services. Industrial policy includes continued emphasis on privatization and deregulation. The ambitious 8% annual growth of the tenth plan is considered achievable because of the inefficiencies that have traditionally plagued Indian agriculture and industry. Because the scope for improvement is so wide, both in the public sector and in the private sector, strong growth can be expected from efficiency enhancing policies.

#### 40 SOCIAL DEVELOPMENT

India's governments have established an extensive social welfare system. Programs for children include supplementary nutrition for expectant mothers and for children under seven years of age, immunization and health programs, vacation camps for low-income families, and training for adolescents. There are also services for the blind, deaf, mentally retarded, and orthopedically handicapped. Programs for women include welfare grants, women's adult education, and working women's hostels. Special measures are aimed at rehabilitating juvenile delinquents, prostitutes, and convicts. Begging in public places is forbidden by law in most states and localities. Other social welfare programs cover displaced persons; family planning and maternity care; rural community development; emergency relief programs for drought, flood, earthquake, and other disasters; untouchability (the Harijans); and underdeveloped tribal peoples.

The program for old age, disability, and death benefits are covered by a provident fund with deposit linked insurance for industrial workers in 177 categories. The system is partially funded by insured persons and employers, with a small pension scheme subsidized by the government. There is a social insurance system covering sickness and maternity as well as work injury. The law requires employers to pay a severance indemnity of 15 days pay for each year of employment.

Although the law prohibits discrimination in the workplace, women are paid less than men in both rural and urban areas. Discrimination exists in access to employment, credit, and in family and property law. Laws aimed at preventing employment discrimination, female bondage and prostitution, and the sati (widow burning), are not always enforced. Wife murder, usually referred to as "dowry deaths," are still evident. Domestic violence is commonplace and more than half of women surveyed believe it is justifiable and a normal part of married life. Not only does the male population exceed that of females, but India is also one of the few countries where men, on the average, live longer than women. To explain this anomaly, it has been suggested that daughters are more likely to be malnourished and to be provided with fewer health care services. Female infanticide and feticide is a growing problem in a society that values sons over daughters.

It is estimated there are nearly 500,000 children living and working on the streets. Child prostitution is widespread. Despite its illegality, child marriages are still arranged in many parts of India.

Human rights abuses, including incommunicado detention, are particularly acute in Kashmir, where separatist violence has flared. Although constitutional and statutory safeguards are in place, serious abuses still occur including extrajudicial killings, abuse of detainees, and poor prison conditions. Despite efforts to eliminate discrimination based on the longstanding caste system, the practice remains unchanged.

#### 41 HEALTH

Great improvements have taken place in public health since independence, but the general health picture remains far from satisfactory. The government is paying increasing attention to integrated health, maternity, and child care in rural areas. An increasing number of community health workers and doctors are being sent to rural health centers. Primary health care is provided to the rural population through a network of over 150,000 primary health centers and sub-centers that are staffed by trained midwives and health guides. In the mid-1990s, India had nearly 400,000 physicians and almost 700,000 hospital beds.

The government's eighth five-year plan, from 1990 to 1995, included eradication of malaria and control of leprosy, tuberculosis, and cataracts. India also wants to achieve a goal of one hospital bed per 1,000 people. (As of 1999, there were an estimated 0.4 physicians and 0.8 hospital beds per 1,000 people.) In the mid-1990s, there were nearly 40,000 hospitals and dispensaries. In addition, the rural population was served by more than 130,000 subcenters, over 20,350 primary health centers, and nearly 2,000 community health centers. There are also numerous herb compounders, along with thousands of registered practitioners following the Ayurvedic (ancient Hindu) and Unani systems.

India has modern medical colleges, dental colleges, colleges of nursing, and nursing schools. More than 100 colleges and schools teach the indigenous Ayurvedic and Unani systems of medicine and 74 teach homeopathy. New drugs and pharmaceutical plants, some assisted by the UN and some established by European and American firms, manufacture antibiotics, vaccines, germicides, and fungicides. However, patent medicines and other reputed curatives of dubious value are still widely marketed; medical advisors of the indigenous systems and their curatives probably are more widely followed than Western doctors, drugs, and medical practices.

As of 1999, total health care expenditure was estimated at 5.4% of GDP. Average life expectancy increased from 48 years in 1971 to 63 years in 2000. Infant mortality declined from 135 per 1,000 live births in the mid-1970s to 69 in 2000. The high mortality rate among infants and children is directly linked to size of family, which is being reduced through the small family norm (National Family Planning Program). The overall mortality rate in 2002 was an estimated 8.6 per 1,000 people. The government's goal is to raise the life expectancy to 64 years.

The government of India took stringent measures to prevent plague following outbreaks during 1994. Mandatory screenings at airports and inspections of passengers were instituted. A short-term multi-drug therapy launched in India in 1995 led to a dramatic fall in the leprosy prevalence. The incidence of malaria was reduced by 98% between 1953 and 1965, but the number of reported cases increased from 14.8 million in 1966 to 64.7 million in 1976 because DDT-resistant strains of mosquitoes had developed. The incidence of malaria in 1995 was 295 cases per 100,000 people. The death toll from smallpox was reduced to zero by 1977 through a massive vaccination program and plague has not been reported since 1967. Between 1948 and 1980, 254 million people were tested for tuberculosis and 252 million

received BCG, an anti-tuberculosis vaccine. In 1999, there were 185 reported cases of tuberculosis per 100,000 people. In 1994, there was a serious outbreak of pneumonic plague in western India, which spread to others parts of the country, killing thousands. Many diseases remain, especially deficiency diseases such as goiter, kwashiorkor, rickets, and beriberi. However, India's immunization rates for children up to one year old are high. Data from 1997 shows vaccinations against tuberculosis, 96%; diphtheria, pertussis, and tetanus, 90%; polio, 91%; and measles, 81%. There is also a national system to distribute vitamin A capsules to children because a lack of this vitamin contributes to blindness and malnutrition. As of the mid-1990s, nearly 25% of the country's children had been reached. Hypertension is a major health problem in India. Between 3.5% and 6.5% of adults have high blood pressure.

UN data shows that India is currently the country with the most HIV-infected people. As of 1999 the number of people living with HIV/AIDS was estimated at 3.7 million and deaths from AIDS that year were estimated at 310,000. HIV prevalence was 0.7 per 100 adults.

## 42 HOUSING

Though progress has been made toward improving the generally primitive housing in which most Indians live, there are still some deficits in housing supply and access to basic utilities. A number of subsidized, low-cost housing schemes have been launched by the government, but the goal of providing a house for every homeless family cannot be met because of the prohibitive cost. The sixth five-year plan envisaged an expenditure of R94 billion for rural housing and R35 billion for urban housing during 1980–85, including R11.9 billion to provide shelter for homeless people. The eighth five-year plan (1990–95) called for an investment of \$40 billion in housing, with 90% of this sum earmarked for the private sector. The government's goal is to provide eight million new housing units between 1990 and 2000, two million to fill the existing backlog and six million to meet the needs that will be created by population growth.

According to 2001 national statistics, there was a total of about 187,162,172 residential dwelling units nationwide. About 50% were considered to be in "good" condition and 44% were described as "livable." Many rural dwellings are constructed of mud brick or burnt brick walls with mud floors and a thatched or tiled roof. Urban dwellings are made from concrete or burnt brick. As of 2001, about 55% of dwellings had access to electricity. Only about 36% of all dwellings had indoor bathroom facilities.

## 43 EDUCATION

According to 2000 UNESCO estimates, 44.2% of India's population was illiterate (males, 31.4%; females, 57.9%). This figure represents a slow decline from the 59.2% illiteracy rate reported in 1981. In 1986, the National Education Policy (NPE) was adopted in order to bring about major reforms in the system, primarily universalization of primary education. In 1988, a national literacy mission was launched, following which states like Kerala and Pondicherry achieved 100% literacy. In 1992, the second program of action on education was introduced to reaffirm the 1986 policy with plans to achieve total literacy and free education for all children up to grade eight by the year 2000. As of 1995, public expenditure on education was 3.1% of GDP.

Since 1947, public educational facilities have been expanded as rapidly as possible. The main goal has been primary education for children in the 6–11 age group. An emphasis on "basic education"—learning in the context of the physical and cultural environment, including domestic and commercial productive activities—has met with some success. In addition to expansion of primary education, there has been marked increase in educational facilities in secondary schools, colleges, universities,

and technical institutes. An intensive development of adult education is under way in both urban and rural areas.

Free and compulsory elementary education is a directive principle of the constitution. In 1997, there were 598,354 primary level schools with 1,789,733 teachers and 110,390,406 pupils. There were a total of 68,872,393 pupils, with 2,738,205 teachers, in secondary schools in that same year. The pupil-teacher ratio at the primary level was 43 to 1 in 1999.

India's system of higher education is still basically British in structure and approach. The university system is second in size only to that of the United States' with 150 universities and over 5,000 colleges and higher-level institutions. Educational standards are constantly improving and especially in the area of science and mathematics are as high as those found anywhere in the world. The older universities are in Calcutta, Mumbai (formerly Bombay), and Madras, all established in 1857; Allahabad, 1877; Banares Hindu (in Varanasi) and Mysore (now Karnataka), both in 1916; Hyderabad (Osmania University), in 1918; and Aligarh and Lucknow, both in 1921. Most universities have attached and affiliated undergraduate colleges, some of which are in distant towns. Christian missions in India have organized more than three dozen college-rank institutions and hundreds of primary, secondary, and vocational schools. In addition to universities there are some 3,500 arts and sciences colleges (excluding research institutes) and commercial colleges, as well as 1,500 other training schools and colleges. The autonomous University Grants Commission promotes university education and maintains standards in teaching and research. Many college students receive scholarships and stipends. In 1997, a total of 6,060,418 students were enrolled in institutions of higher learning.

## 44 LIBRARIES AND MUSEUMS

The National Library in Calcutta, with over 221 million volumes, is, by far, the largest in the country, and possibly the world. Some of the other leading libraries are the New Delhi Public Library (1.4 million volumes), the Central Secretariat Library in New Delhi (700,000 volumes), and the libraries of some of the larger universities. The Khuda Baksh Oriental Library in Patna, with a collection of rare manuscripts in Arabic, Urdu, and Farsi, is one of 10 libraries declared "institutions of national importance" by an act of parliament. The National Archives of India, in New Delhi, is the largest repository of documents in Asia, with 25 km (16 mi) of shelf space. There is an extensive public library system as well as cultural and religious institutions and libraries throughout the country.

Noted botanical gardens are located in Calcutta, Mumbai (formerly Bombay), Lucknow, Ootacamund, Bangalore, Madras, and Darjeeling, and well-stocked zoological gardens are found in Calcutta, Mumbai, Madras, Trivandrum, Hyderabad, Karnataka, and Jodhpur. Most of India's hundreds of museums specialize in one or several aspects of Indian or South Asian culture; these include 25 archaeological museums at ancient sites, such as Konarak, Amravati, and Sarnath. Some of the more important museums are the Indian Museum in Calcutta, the Prince of Wales Museum of Western India in Mumbai (formerly Bombay), and the National Museum and the National Gallery of Modern Art, both in New Delhi. There are also municipal museums throughout the country and dozens of museums and galleries devoted to prominent South Asian artists. There are science museums in Bhopal, Calcutta, Mumbai (formerly Bombay), and New Delhi. Bhavongor houses the Gandhi Museum, one of several sites devoted to the history of the national hero. In 2001 the Broadcasting Museum was founded in Delhi. There also are thousands of architectural masterpieces of antiquity—the palaces, temples, mausoleums, fortresses, mosques, formal gardens, deserted cities, and rock-hewn monasteries—found in every section of the subcontinent.

## 45 MEDIA

All postal and telegraph and most telephone services are owned and operated by the government. International telephone services, both radio and cable, are available between India and all major countries of the world. In 2000, there were 27.7 million telephone lines and 2.93 million cellular phones in use.

All-India Radio (AIR), government-owned, operates short- and medium-wave transmission through 148 stations and broadcasts in all major languages and dialects for home consumption. AIR also operates external services in 24 foreign and 36 Indian languages. There are privately licensed radio stations, but they are only permitted to broadcast educational or entertainment programming. News broadcasting by independent stations is prohibited. In 1959, India's first television station was inaugurated in Delhi, and color television broadcasting was inaugurated in 1982. By the end of 1985, the government's Doordarshan television network operated 22 broadcasting centers. As of 1999, there were, altogether, 153 AM and 92 FM radio stations and 562 television stations. In 2000, there were 121 radios and 78 television sets for every 1,000 people. The School Television Section broadcasts regular in-school instruction programs on selected subjects. India has a thriving film industry, centered at Mumbai (formerly Bombay), Madras, Calcutta, and Bangalore. Indians are avid film-goers and users of videocassettes. In 2001, there were five million Internet subscribers served by about 43 service providers.

The first newspaper in India, an English-language weekly issued in Calcutta in 1780, was followed by English-language papers in other cities. The first Indian-language newspaper (in Hindi) appeared in Varanasi (Benares) in 1845. There are hundreds of newspapers in circulation throughout the country, published in some 85 languages, primarily Hindi, English, Bengali, Urdu, and Marathi. The majority of Indian newspapers are under individual ownership and have small circulations. About 30% are published in Delhi, Mumbai (formerly Bombay), Calcutta, and Madras.

The principal national English-language newspapers are the *Indian Express*, with editions published in Mumbai (formerly Bombay) and 10 other cities, and the *Times of India*, published in Ahmadabad, Mumbai, Delhi, and three other cities. The largest Hindi daily is the *Navbharat Times*, published in Mumbai. Principal dailies (with estimated 2002 circulation) are as follows:

	LANGUAGE	CIRCULATION
MUMBAI (FORMERLY BOMBAY)		
<i>Indian Express</i>	English	576,200
<i>Times of India</i>	English	536,166
<i>The Economic Times</i>	English	336,060
<i>Lokasatta</i>	Marathi	258,090
<i>Maharashtra Times</i>	Marathi	NA
CALCUTTA		
<i>Jugantar</i>	Bengali	302,000
<i>The Telegraph</i>	English	234,500
<i>Aajkaal</i>	Bengali	157,713
DELHI		
<i>Navbharat Times</i>	Hindi	418,500
<i>Punjab Kesari</i>	Hindi	173,390
<i>Indian Express</i>	English	130,000
<i>Hindustan</i>	Hindi	98,900
MADRAS		
<i>The Hindu</i>	English	300,320
<i>Thanthi</i>	Tamil	297,797
<i>Dinamani</i>	Tamil	178,230
CALICUT		
<i>Mathirubhumi</i>	Malayalam	454,351
KOTTAYAM		
<i>Malayala Manorama</i> (nationwide circulation)	Malayalam	1,013,590
KANPUR		
<i>Dainik Jagran</i>	Hindi	409,480

In 1976, the four leading Indian news agencies—the Press Trust of India (English), United News of India (English), Hindustan Samachar (Hindi), and Samachar Bharati (Hindi)—

merged to form Samachar, which means “news” in Hindi. The merger followed the cancellation by AIR of subscriptions to all four services. Samachar was dissolved in 1978, and as of 1991 there were three separate agencies: Indian News and Features Alliance, Press Trust of India and United News of India.

Freedom of the press has been nominally ensured by liberal court interpretations of the constitution, but the government has long held the right to impose “reasonable restrictions” in the interest of “public order, state security, decency, and morality.” The government’s censorship of newspapers imposed in June 1975 was declared illegal by the courts, and press restrictions proclaimed by Indira Gandhi’s government in 1976 were relaxed by the Janata government in 1977. The independent Press Council, which had been abolished in 1975, was restored in 1979 with the function of upholding freedom of the press. On a day-to-day basis, the press is essentially unfettered, and news magazines abound in addition to the newspapers.

## 46 ORGANIZATIONS

Cultural activities, especially traditional arts and crafts, are promoted throughout India by the National Academy of Fine Arts; the National Academy of Music, Dance, and Drama; the National Center for the Performing Arts; and the National Academy of Letters. Other state organizations for the furthering of cultural activities include the Ministry of Information and Broadcasting, the Indian Council for Cultural Relations, and the National Book Trust. There are a great many private cultural and institutional organizations based on religion and philosophy, language (including Sanskrit and Pali), drama, music and dancing, modern writing, the classics, and painting and sculpture.

There are a number of scholarly and professional societies and associations focused on education and research in various scientific and medical fields, including the national Indian Medical Association.

There are many political, commercial, industrial, and labor organizations, and rural cooperatives. Almost all commercial and industrial centers have chambers of commerce. The Center of Indian Trade Unions and All India Trade Union Congress are umbrella organizations representing the rights of worker’s.

Notable national youth organizations include the All India Students Federation, Girl Guides and Scouts of India, Indian National Youth Organization, National Council of YMCA’s of India, Service Civil-Youth Volunteers of India, Student Christian Movement of India, Student Federation of India, The Bharat Scouts and Guides, Tibetan Youth Congress, United Nations Youth Organization of India, and Young Catholic Students of India. National women’s organizations include All India Women’s Conference, Women’s Equal Rights Group, and Women’s Protection League.

There are a wide variety of international organizations with chapters in India, including Christian Children’s Fund, Defence for Children International, Habitat for Humanity, the Red Cross, Amnesty International, Kiwanis, and Lion’s Clubs.

## 47 TOURISM, TRAVEL, AND RECREATION

The national Department of Tourism maintains tourist information offices at home and abroad. It has constructed many facilities for viewing wildlife in forest regions (by minibus, boat, or elephant) and operates tourist lodges in wildlife sanctuaries. The principal tourist attractions are India’s distinctive music, dance, theater, festivals, and cuisines; the great cities of Calcutta, Mumbai (formerly Bombay), and Madras; and such monuments as the Red Fort and Jama Masjid mosque in Delhi, the Taj Mahal at Agra, and the Amber Palace in Jaipur. Tourists and pilgrims also flock to the sacred Ganges River, the Ajanta temple caves, the temple at Bodhgaya where the Buddha is said to have achieved enlightenment, and many other ancient temples and tombs throughout the country. In general, all visitors must have a



valid passport and an entry, transit, or tourist visa. Inoculation against cholera is recommended.

The big-game hunting for which India was once famous is now banned, but excellent fishing is available, and there are many golf courses. Cricket, field hockey, polo, football (soccer), volleyball, and basketball are all popular, as are pony-trekking in the hill stations and skiing in northern India.

All major cities have comfortable Western-style hotels that cater to tourists; in 1999 there were 72,114 hotel rooms with 144,228 beds and a 50% occupancy rate. In 2000, tourist arrivals numbered 2,641,157, with Europe being the most important generating region of tourists to India. Tourist receipts totaled \$3.1 billion.

As of 1999, the US government estimated the cost of staying in New Delhi at \$260 per day. Daily expenses were estimated at \$268 in Calcutta, \$257 in Mumbai (formerly Bombay), and \$215 in Bangalore.

## 48 FAMOUS INDIANS

Siddhartha Gautama was (624–544 BC according to Sinhalese tradition; 563?–483? BC according to most modern scholars) later known as the Buddha (“the enlightened one”). Born in what is now Nepal, he spent much of his life in eastern Uttar Pradesh and Bihar, propounding the philosophical doctrines that were later to become Buddhism. Contemporary with the Buddha was Vardhamana (599?–527 BC), also known as Mahavira (“great hero”), a saintly thinker of Bihar from whose teachings evolved Jainism. Some of the noteworthy religious and political leaders were Chandragupta (r.321?–297? BC), founder of the Maurya Dynasty; Asoka (r.273–232 BC), who made Buddhism the religion of his empire; Chandragupta II (r. AD 375?–413), whose era marked a high point of Hindu art and literature; Shivaji (1627?–80), a hero of much Hindu folklore; Nanak (1469–1539), whose teachings are the basis of Sikhism; and Govind Singh (1666–1708), the guru who gave Sikhism its definitive form. Akbar (1542–1605) greatly expanded the Mughal Empire, which reached its height under Shah Jahan (1592–1666), builder of the Taj Mahal, and his son, the fanatical emperor Aurangzeb (1618–1707).

Sanskrit grammarian Panini (5th?–4th? cents. BC), wrote the first book on scientific linguistics. The Bengali educator and reformer Rammohan Roy (1772–1833) has been called “the father of modern India.” Swami Vivekananda (1863–1902), founder of the nonsectarian Ramakrishna Mission and a great traveler both in India and abroad, did much to explain the Hindu philosophy to the world and to India as well. Sarvepalli Radhakrishnan (1888–1975), a leading 20th-century Hindu scholar and philosopher, also served as president of India from 1962 to 1967. Another revered religious philosopher was Meher Baba (1894–1969). The rising position of India in science and industry is well exemplified by Jamshedji Nusserwanji Tata (1822–1904), founder of the nation’s first modern iron and steel works as well as many other key industries; the physicist Jagadis Chandra Bose (1858–1937), noted for his research in plant life; Srinivasa Ramanujan (1887–1919), an amazingly original, although largely self-taught, mathematician; Chandrasekhara Venkata Raman (1888–1970), who was awarded the 1930 Nobel Prize for research in physics; Chandrasekhara Subramanyam (1910–1995), also a Nobel Prize laureate in physics, and Vikram A. Sarabhai (1919–71), the founder of the Indian space program. Mother Teresa (Agnes Gonxha Bojaxhiu, 1910–97, in what is now Yugoslavia) won the Nobel Peace Prize in 1979 for her 30 years of work among Calcutta’s poor.

In modern times no Indian so completely captured the Indian masses and had such a deep spiritual effect on so many throughout the world as Mohandas Karamchand Gandhi (1869–1948). Reverently referred to by millions of Indians as the Mahatma (“the great-souled one”), Gandhi is considered the

greatest Indian since the Buddha. His unifying ability and his unusual methods of nonviolent resistance contributed materially to the liberation of India in 1947. A leading disciple of the Mahatma, Vinayak (“Vinoba”) Narahari Bhawe (1895–1982), was an agrarian reformer who persuaded wealthy landowners to give about 600,000 hectares (1,500,000 acres) of tillable land to India’s poor.

Gandhi’s political heir, Jawaharlal Nehru (1889–1964), had a hold on the Indian people almost equal to that of the Mahatma. Affectionately known as Chacha (Uncle) Nehru, he steered India through its first 17 years of independence and played a key role in the independence struggle. Indira Gandhi (1917–84), the daughter of Nehru and prime minister from 1966 to 1977 and again from 1980 to 1984, continued her father’s work in modernizing India and played an important role among the leaders of nonaligned nations. Her son Rajiv (1944–91) succeeded her as prime minister and, in the 1985 election, achieved for himself and his party the largest parliamentary victory since India became independent.

A classical Sanskrit writer in Indian history was the poet and playwright Kalidasa (fl. 5th cent. AD), whose best-known work is *Shakuntala*. In modern times, Rabindranath Tagore (1861–1941), the great Bengali humanist, influenced Indian thought in his many songs and poems. Tagore received the Nobel Prize in literature in 1913 and through his lifetime wrote more than 50 dramas and about 150 books of verse, fiction, and philosophy. Another Bengali writer highly esteemed was the novelist Bankim Chandra Chatterjee (1838–94). Tagore and Chatterjee are the authors, respectively, of India’s national anthem and national song. The novel in English is a thriving genre; notable modern practitioners include Rasipuram Krishnaswamy Narayan (1906–2001), Bhabani Bhattacharya (1906–88), and Raja Rao (b.1909) and Khushwaut Singh. Influential poets of the last two centuries include the Bengalis Iswar Chandra Gupta (1812–59) and Sarojini Naidu (1879–1949), known as “the nightingale of India,” a close associate of Gandhi and a political leader in her own right.

Modern interpreters of the rich Indian musical tradition include the composer and performer Ravi Shankar (b.1920) and the performer and educator Ali Akbar Khan (b.1922). Zubin Mehta (b.1936) is an orchestral conductor of international renown. Uday Shankar (1900?–1977), a dancer and scholar, did much to stimulate Western interest in Indian dance. Tanjore Balasaraswati (1919?–84) won renown as a classical dancer and teacher. Preeminent in the Indian cinema is the director Satyajit Ray (1921–1992).

## 49 DEPENDENCIES

### Andaman and Nicobar Islands

The Andaman and Nicobar Islands are two groups of islands in the Indian Ocean, extending approximately 970 km (600 mi) N–S and lying about 640 km (400 mi) W of both the Tenasserim coast of Myanmar and peninsular Thailand. Their total area is 8,293 sq km (3,202 sq mi); their population was estimated to exceed 188,000 in the mid-1990s. These islands together form a union territory with its capital at Port Blair. The legal system is under the jurisdiction of the high court of Calcutta.

The Andaman Islands extend more than 354 km (220 mi) between 10° and 14°N and 92°12′ and 94°17′ E. Of the 204 islands in the group, the three largest are North, Middle, and South Andaman; since these are separated only by narrow inlets, they are often referred to together as Great Andaman. Little Andaman lies to the south.

The Nicobars extend south from the Andamans between 10° and 6°N and 92°43′ and 93°57′ E. Of the 19 islands, Car Nicobar, 121 km (75 mi) S of Little Andaman, holds more than

half the total population; the largest, Great Nicobar, 146 km (91 mi) NW of Sumatra, is sparsely populated.

The Andamans were occupied by the British in 1858, the Nicobars in 1869; sporadic settlements by British, Danish, and other groups were known previously. During World War II (1939–45), the islands were occupied by Japanese forces. They became a union territory in 1956. That same year, the Andaman and Nicobar Islands (Protection of Aboriginal Tribes) Act came into force; this act, designed to protect the primitive tribes that live in the islands, prohibited outsiders from carrying on trade or industry in the islands without a special license. Six different tribes live in the Andaman and Nicobar Islands, the largest being the Nicobarese. There are lesser numbers of Andamanese, Onges, Jarawas, Sentinalese, and Shompens in the dependency. Access to tribal areas is prohibited.

Agriculture is the mainstay of the economy. The principal crops are rice and coconuts; some sugarcane, fruits, and vegetables are also grown. There is little industry other than a sawmill and plywood and match factories, but the government is making plans to promote tourism in the islands. These plans include the construction of a 1,000-bed hotel, a casino, and duty-free shopping facilities in Port Blair.

### Lakshadweep

The union territory of Lakshadweep consists of the Laccadive, Minicoy, and Amindivi Islands, a scattered group of small coral atolls and reefs in the Arabian Sea between 10° and 13°N and 71°43' and 73°43' E and about 320 km (200 mi) W of Kerala state. Their total area is about 32 sq km (12 sq mi). Minicoy, southernmost of the islands, is the largest.

In the mid-1990s, the population of Lakshadweep was estimated to exceed 40,000. The inhabitants of the Laccadives and Amindivis are Malayalam-speaking Muslims; those on Minicoy are also Muslim, but speak a language similar to Sinhalese. The islanders are skilled fishermen and trade their marine products and island-processed coir in the Malabar ports of Kerala. The main cottage industry is coir spinning. Politically, these islands were under the control of the state of Madras until 1956. The present territorial capital is at Kavaratti. Judicial affairs are under the jurisdiction of the high court of Kerala.

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# INDONESIA

Republic of Indonesia  
*Republik Indonesia*

**CAPITAL:** Jakarta

**FLAG:** The national flag, adopted in 1949, consists of a red horizontal stripe above a white stripe.

**ANTHEM:** *Indonesia Raya (Great Indonesia)*.

**MONETARY UNIT:** The rupiah (Rp) consists of 100 sen. There are coins of 1, 2, 5, 10, 25, 50, and 100 rupiahs, and notes of 100, 500, 1,000, 5,000, and 10,000 rupiahs. Rp1 = \$0.0001149 (or \$1 = Rp8,700) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 17 August; Christmas, 25 December. Movable religious holidays include the Prophet's Birthday, Ascension of Muhammad, Good Friday, Ascension Day of Jesus Christ, the end of Ramadan, 'Id al-Fitr, 'Id al-'Adha', and the 1st of Muharram (Muslim New Year).

**TIME:** Western, 7 PM = noon GMT; Central, 8 PM = noon GMT; Eastern, 9 PM = noon GMT.

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

The Republic of Indonesia consists of five large islands and 13,677 smaller islands (about 6,000 of which are inhabited) forming an arc between Asia and Australia. With a total area of 1,919,440 sq km (741,100 sq mi), Indonesia is the fourth-largest Asian country, after China, India, and Saudi Arabia. Comparatively, the area occupied by Indonesia is slightly less than three times the size of the state of Texas. It extends 5,271 km (3,275 mi) E-W and 2,210 km (1,373 mi) N-S. The five principal islands are Sumatra; Java; Borneo, of which the 72% belonging to Indonesia is known as Kalimantan; Sulawesi, formerly called Celebes; and Irian Jaya (West Irian), the western portion of the island of New Guinea. Indonesia has land boundaries with Malaysia (on Borneo), Papua New Guinea (on New Guinea), and East Timor (on Timor). It is bounded on the N by the South China Sea, on the N and E by the Pacific Ocean, and on the S and W by the Indian Ocean. Indonesia's total land boundary length is 2,830 km (1,758 mi). Its coastline is 54,716 km (33,999 mi).

Indonesia's capital city, Jakarta, is located on the island of Java.

## **<sup>2</sup>TOPOGRAPHY**

The Indonesian archipelago consists of three main regions. One of the regions consists of Sumatra, Java, Kalimantan, and the islands that lie between them, which stand on the Sunda shelf, where the ocean depths are never more than 210 m (700 ft). Another region consists of Irian Jaya and the Aru Isles, which stand on the Sahul shelf, projecting northward from the north coast of Australia at similar depths. Between these two shelves is the remaining region, consisting of the Lesser Sunda Islands, the Maluku Islands (Moluccas), and Sulawesi, which are surrounded by seas with depths that reach 4,570 m (15,000 ft). The large islands have central mountain ranges rising from more or less extensive lowlands and coastal plains. Many inactive and scores of active volcanoes dot the islands, accounting for the predominantly rich volcanic soil that is carried down by the rivers to the plains and lowlands; there are over 100 volcanoes. Peaks

rise to 3,650 m (12,000 ft) in Java and Sumatra. Java, Bali, and Lombok have extensive lowland plains and gently sloping cultivable mountainsides. Extensive swamp forests and not very fertile hill country are found in Kalimantan. Sumatra's eastern coastline is bordered by morasses, floodplains, and alluvial terraces suitable for cultivation farther inland. Mountainous areas predominate in Sulawesi.

## **<sup>3</sup>CLIMATE**

Straddling the equator, Indonesia has a tropical climate characterized by heavy rainfall, high humidity, high temperature, and low winds. The wet season is from November to March, the dry season from April to October. Rainfall in lowland areas averages 180–320 cm (70–125 in) annually, increasing with elevation to an average of 610 cm (240 in) in some mountain areas. In the lowlands of Sumatra and Kalimantan, the rainfall range is 305–370 cm (120–145 in); the amount diminishes southward, closer to the northwest Australian desert. Average humidity is 82%.

Altitude rather than season affects the temperature in Indonesia. At sea level, the mean annual temperature is about 25–27°C (77–81°F). There is slight daily variation in temperature, with the greatest variation at inland points and at higher levels. The mean annual temperature at Jakarta is 26°C (79°F); average annual rainfall is about 200 cm (79 in).

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

The plant life of the archipelago reflects a mingling of Asiatic and Australian forms with endemic ones. Vegetation ranges from that of the tropical rain forest of the northern lowlands and the seasonal forests of the southern lowlands, through vegetation of the less luxuriant hill forests and mountain forests, to subalpine shrub vegetation. The bridge between Asia and Australia formed by the archipelago is reflected in the varieties of animal life. The fauna of Sumatra, Kalimantan, and Java is similar to that of Peninsular Malaysia, but each island has its peculiar types. The orangutan is found in Sumatra and Kalimantan but not in Java, the siamang only in Sumatra, the proboscis monkey only in

Kalimantan, the elephant and tapir only in Sumatra, and the wild ox in Java and Kalimantan but not in Sumatra. In Sulawesi, the Maluku Islands, and Timor, Australian types begin to occur; the bandicoot, a marsupial, is found in Timor. All the islands, especially the Malukus, abound in great varieties of bird life, reptiles, and amphibians. The abundant marine life of Indonesia's extensive territorial waters includes a rich variety of corals.

## 5 ENVIRONMENT

An extensive "regreening" and reforestation of barren land, initiated under the 1975–79 national economic development plan, was greatly expanded and integrated with flood control and irrigation programs under the national plans for 1979–84 and 1984–89. From the mid-1980s to the mid-1990s, Indonesia's forests and woodland areas increased by 1.4%. Indonesia also has the world's most extensive mangrove area, which covered over 4 million ha (9.9 million acres) in 1994. Flood-control programs involve river dredging, dike strengthening, construction of new dams, and sandbagging of river banks at critical points. The burning of oil and coal along with the abuse of fertilizers and pesticides results in significant damage to the environment. The nation used 3.1 million tons of fertilizer per year at last estimate. The nation's cities produce about 12.9 million tons of solid waste per year. Indonesia has 2,838 cu km of renewable water resources with 93% used in farming activity and 1% used for industrial purposes. About 90% of all city dwellers and 69% of rural dwellers have access to pure drinking water. Legislation introduced in 1982 endorsed the establishment of penalties for environmental pollution.

Protection of indigenous wildlife is entrusted to the Directorate of Nature Conservation and Wildlife Management. In 1984/85, the government set up three new national parks, part of 19 included in the 1984–89 plan, and four new natural reserves. As of 1986 there were 146 parks and nature reserves, with more in the planning stage; the government's goal was to allocate 10% of the nation's land area to reserves. By 2001 this goal had been met—protected lands totaled 10.1% of Indonesia's total land area. Indonesia's coastal waters are among the world's richest in biodiversity of marine life. As of 2001, 128 of Indonesia's mammal species were endangered and 104 bird species were threatened with extinction. Endangered species in Indonesia include the pig-tailed langur, Javan gibbon, orangutan, tiger, Asian elephant, Malayan tapir, Javan rhinoceros, Sumatran rhinoceros, Sumatran serow, Rothschild's starling, lowland anoa, mountain anoa, Siamese crocodile, false gavia, river terrapin, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback). Buhler's rat and the Javanese lapwing have become extinct.

## 6 POPULATION

The population of Indonesia in 2003 was estimated by the United Nations at 219,883,000, which placed it as the fourth most populous country among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 100 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.26%, with the projected population for the year 2015 at 250,428,000. The population density in 2002 was 114 per sq km (295 per sq mi). However, population distribution is uneven, with 60% living in just 7% of the nation's land. Some urban areas have density equivalent to 17,000 per sq km (44,030 per sq mi). The government is continuing efforts to curb population growth.

It was estimated by the Population Reference Bureau that 41% of the population lived in urban areas in 2001. The capital city, Jakarta, had a population of 10,621,000 in that year. Other large cities include Bandung, 3,420,000; Surabaya, 2,507,000; Medan,

1,910,000; Palembang, 1,429,000; Ujung Pandang, 1,064,000; and Semarang, 826,000. According to the United Nations, the urban population growth rate for 2000–2005 was 3.6%.

## 7 MIGRATION

Historically, there has been considerable migration from and to China. Following a decree banning foreigners from participating in retail trade in rural Indonesia, some 120,000 Chinese left Indonesia in 1960 and the first six months of 1961. After the attempted coup of 1965 and the resultant deterioration in relations with China, many more Chinese left Indonesia. Migration between the Netherlands and Indonesia has been greatly reduced since independence; nearly all the 250,000 Netherlands nationals in Indonesia in 1949 returned home.

Resettlement of people from crowded areas to the less populous outer islands is official government policy. The 1979–84 National Economic Plan had as a target the "transmigration" of 500,000 families from Java, Bali, and Madura to Sumatra, Kalimantan, Sulawesi, Maluku Province, and Irian Jaya. Participation was voluntary, and the actual number of families that resettled was about 366,000, containing about 1.5 million people. Since the annual population increase of Java is more than two million, the costly transmigration scheme did little to relieve that island's human congestion, but it had a considerable impact in developing sparsely settled areas. Each family was entitled to 2 ha (5 acres) and was provided with housing, food, seedlings, fertilizers, pesticides, and other supplies that it could use to become productive. Under the 1987–91 plan, 338,433 families were resettled.

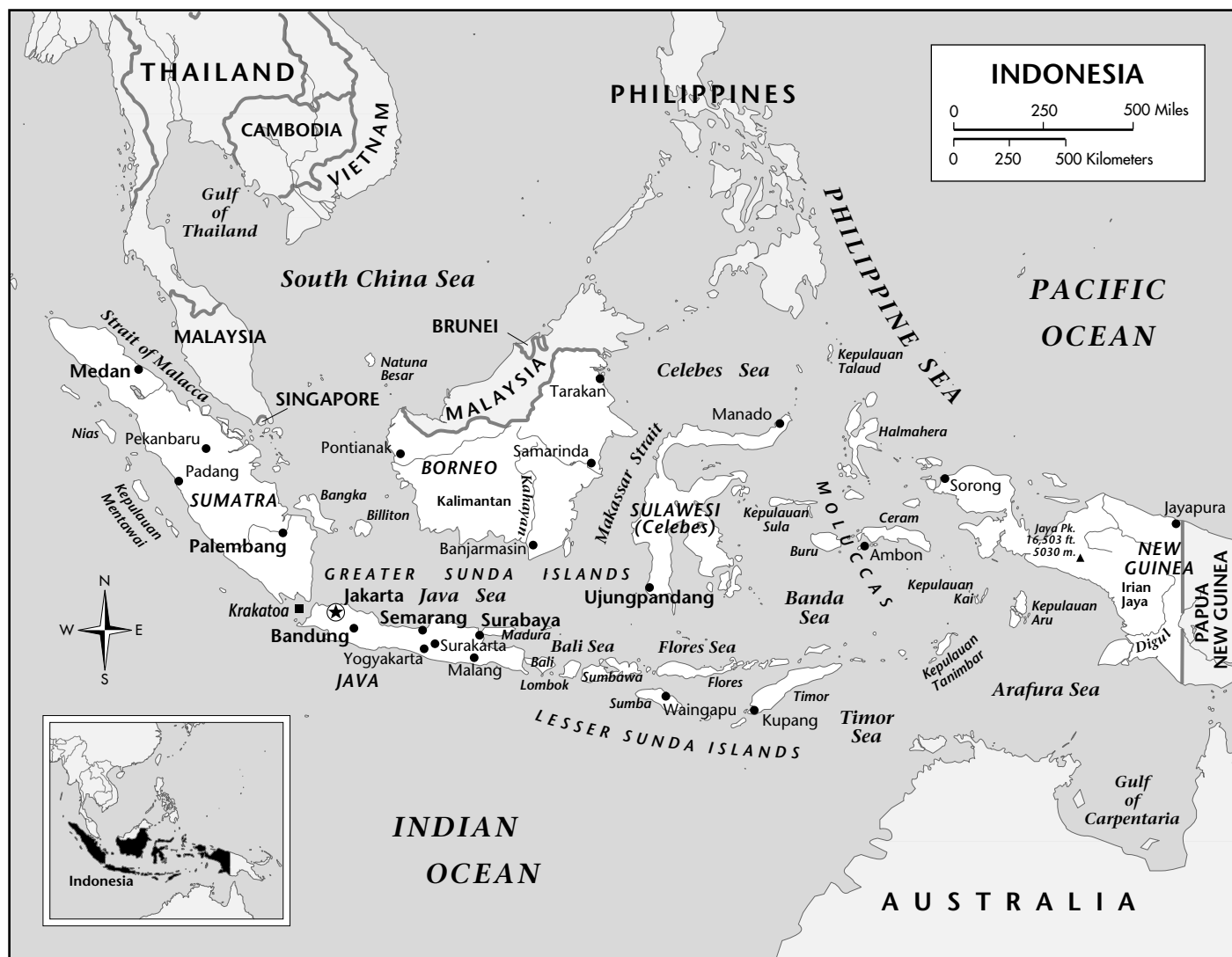
First asylum was granted to over 145,000 Indochinese refugees between 1975 and 1993. Of these refugees, 121,708 were from Vietnam. Of the Vietnam asylum seekers, 112,000 had left for resettlement in the West by March of 1996. A total of 8,400 returned home voluntarily, and 4,300 remained on Galang Island. This remaining group of Vietnamese are also expected to return home. In 1999 the net migration rate for Indonesia was zero.

## 8 ETHNIC GROUPS

The indigenous peoples, ethnologically referred to as Malays or Indonesians, also are found on the neighboring islands of the Philippines, in Peninsular Malaysia, and even as far away as Taiwan and Madagascar. Indonesians are characterized by smallness of stature, light to dark-brown pigmentation, thick, sleek black hair, broad formation of the head, a wide nose, and thick lips. The inhabitants of eastern Indonesia have Negroid features, the result of intermarriage with the Papuans of New Guinea.

The population is officially classified into four main ethnic groups: Melanesians, who constitute the majority; Proto-Austronesians, including the Wajaks and the Irianese on Irian Jaya; Polynesians, including the Ambonese on the Maluku Islands; and Micronesians, found on the tiny islets of Indonesia's eastern borders. The Melanesians are subdivided into the Acehnese of north Sumatra; the Bataks of northeastern Sumatra; the Minangkabaus of west Sumatra; the Sundanese of west Java; the Javanese in central and east Java; the Madurese on the island of Madura; the Balinese on Bali; the Sasaks on the island of Lombok; the Timorese on Timor; the Dayaks in Kalimantan; and the Minahasa, Torajas, Makassarese, and Buginese on Sulawesi. In 1999, 45% of the population was Javanese, 14% Sundanese, 7.5% Madurese, 7.5% coastal Malays, and 26% other.

Ethnic Chinese, the principal minority, were the target of riots in 1974 and 1980. Active mainly in business in the major cities, they are relatively prosperous and widely resented by ethnic Indonesians.



LOCATION: 95°1' to 141°2' E; 6°5' N to 11°S. BOUNDARY LENGTHS: Malaysia, 1,782 kilometers (1,110 miles); Papua New Guinea, 820 kilometers (510 miles); total coastline, 54,716 kilometers (33,996 miles). TERRITORIAL SEA LIMIT: 12 miles.

## <sup>9</sup>LANGUAGES

Bahasa Indonesia, a product of the nationalist movement, is the official language, serving as a common vehicle of communication for the various language groups. Based primarily on Malay and similar to the official language of Malaysia, it also contains many words from other Indonesian languages and dialects, as well as from Dutch, English, Arabic, Sanskrit, and other languages. In 1973, Indonesia and Malaysia adopted similar systems of spelling. Outside of Jakarta, only 10–15% of the population speaks the language in the home, but more than half the population uses it as a secondary language. Use of some 669 local languages persists, including Sundanese, Malay, and the most widely used, Javanese. English and Dutch are widely used in industry and commerce.

## <sup>10</sup>RELIGIONS

According to data made available in 1990, about 87% of the inhabitants were adherents of Islam; 6% were Protestants; 4% were Roman Catholics; 2% were Hindus; 1% are Buddhists, and 1% follow tribal and other religions.

Most Muslims are Sunni, but the Shi'a, Amadhiyah, and Sufi branches are also represented. There are also small groups of

messianic Islam groups including Darul Argam, Jamaah Salamulla, and Negara Islam Indonesia.

Hinduism was the religion of Java for several centuries, but when Islam swept over Indonesia in the 15th century, Hinduism retreated to Bali, and some three million Indonesians on Bali and elsewhere have remained Hindu in religion and culture. The religious faith of the Chinese in Indonesia may be characterized as Christian or Buddhist-Confucianist. The chief Christian communities are found on Ambon and adjacent islands, in northern Sulawesi, in north-central Sumatra, and on Timor and adjacent islands. In central Kalimantan and Irian Jaya, as well as a few other areas, substantial numbers of Indonesians follow animist tribal religions.

Freedom of religion is guaranteed by the constitution for members of five out of six officially recognized religions. Restrictions on some unrecognized religions do exist; however, in 1998 the People's Consultative Assembly adopted a new Human Rights Charter, which provides for citizens' freedom to practice their religion without specifying any particular religions. The government actively supports Islamic religious schools and pays for a number of annual pilgrimages to Mecca.

## 1<sup>1</sup>TRANSPORTATION

Indonesia is politically and economically dependent upon good communications and transportation among the islands. Transportation facilities suffered greatly from destruction and neglect during World War II and immediately thereafter. The revitalized and partially modernized system suffered an additional setback during 1957-58 as a result of the withdrawal of Dutch equipment and personnel.

Of the 342,700 km (121,954 mi) of roadways in 2002, 158,670 km (98,598 mi) were paved. Indonesia had 526,300 passenger cars and 2,419,000 commercial vehicles as of 2001. Railways connect the main cities in Java and parts of Sumatra. The state owns all of the 6,458 km (4,013 mi) of railroad track in service. Air-conditioned cars and express service have been introduced in parts of Java, but no new lines have been built in recent years.

About 21,579 km (13,409 mi) of inland waterways form the most important means of transportation in Kalimantan and in parts of Sumatra. The principal ports of international trade are Tanjungpriok (for Jakarta) and Tanjungperak (for Surabaya) in Java, and Belawan (near Medan) and Padang in Sumatra. Ports with less traffic but capable of handling sizable ships are Cirebon and Semarang in Java; Palembang in Sumatra; Banjarmasin, Balikpapan, and Pontianak in Kalimantan; Tanjungpinang in Bintan; and Ujung Padang in Sulawesi. In 2002, Indonesia's total fleet included 5,668 vessels of 1,000 gross tons or more, totaling 2,969,281 GRT. Regulations were imposed in 1982 requiring that all government imports and exports be shipped in Indonesian vessels, and port charges were substantially altered to benefit Indonesia's national carriers. In 1984, a policy of scrapping old vessels was implemented.

Indonesia had 490 airports in 2001, of which 153 had paved runways. The center of international air traffic is Jakarta's Sukarno-Hatta International Airport. Other principal airports include Halim Perdanak at Jakarta and Polonia at Medan. In 2001, 10,048,000 passengers were carried on scheduled domestic and international flights.

## 1<sup>2</sup>HISTORY

Evidence for the ancient habitation of Indonesia was discovered by the Dutch paleontologist Eugène Dubois in 1891; these fossil remains of so-called Java man (*Pithecanthropus erectus*) date from the Pleistocene period, when Indonesia was linked with the Asian mainland. Indonesia's characteristic racial mixture resulted from at least two waves of invasions from South China by way of the Malay Peninsula and from intermarriage of these Indonesians with later immigrants, especially from India. The important population groups of today trace their descent from the immigrants of the second wave, which occurred around the 2nd or 3rd century BC. They subjugated and absorbed most of the other inhabitants. Indian influences permeated Java and Sumatra from the 1st to the 7th century AD. During this period and extending into the 15th century, local Buddhist and Hindu rulers established a number of powerful kingdoms. Among the most powerful of these was the Buddhist kingdom of Srivijaya, established on Sumatra in the 7th century; it prospered by gaining control of trade through the Strait of Malacca. To the east, in central Java, the Sailendra dynasty established its Buddhist kingdom in the 8th century. Relics of Sailendra rule include the great temple of Borobudur, Asia's largest Buddhist monument, with hundreds of bas-reliefs depicting the life of Buddha. Succeeding the Sailendra dynasty in 856 were followers of the Hindu god Shiva; these Shivaites built the great temple at Prambanan, east of Yogyakarta. Other Hindu kingdoms subsequently extended Indian influence eastward into east Java and Bali. The last of these was the Hindu kingdom of Majapahit, which was at the height of its power during the 13th century,

when Marco Polo visited Java and northern Sumatra. When Majapahit collapsed around 1520, many of its leaders, according to tradition, fled to Bali, the only island in Indonesia that retains Hinduism as the chief religion. Even before Majapahit disintegrated, Muslim missionaries, probably Persian merchants, had begun to win much of the archipelago for Islam. About this time, also, the first Europeans arrived, and the first Chinese settlements were made. The Portuguese captured Malacca (Melaka), on the west coast of the Malay Peninsula, in 1511 and established control over the archipelago.

Dutch ships visited Java in 1596. The Dutch came in increasing numbers and soon drove the Portuguese out of the archipelago (except for the eastern half of the island of Timor), beginning nearly 350 years of colonial rule. The States-General of the Dutch Republic in 1602 incorporated the East Indian spice traders as the United East India Company and granted it a monopoly on shipping and trade and the power to make alliances and contracts with the rulers of the East. By force and diplomacy, the company thus became the supreme ruler of what became known as the Dutch East Indies. However, maladministration and corruption weakened the company after its early years of prosperity, and the Dutch government nullified its charter in 1799 and took over its affairs in 1800. The British East India Company ruled the Indies during the Napoleonic wars, from 1811 to 1816. During this period, Sir Thomas Stamford Raffles became governor of Java. When Dutch rule was restored, the Netherlands government instituted the "culture system" on Java, under which the Javanese, instead of paying a certain proportion of their crops as tax, were required to put at the disposal of the government a share of their land and labor and to grow crops for export under government direction. From a fiscal point of view the system was very successful, yielding millions of guilders for the Netherlands treasury, but this "net profit" or "favorable balance" policy fell under increasing moral attack in the Netherlands and was brought to an end about 1877. Thereafter, private Dutch capital moved into the Indies, but the augmentation of Dutch prosperity at the expense of Indonesian living standards was increasingly resented. With the adoption of what colonial administrators called the "ethical policy" at the beginning of the 20th century, the first steps were taken to give Indonesians participation in government. A central representative body, the Volksraad, was instituted in 1918. At first it had only advisory powers, but in 1927 it was given co-legislative powers. An Indonesian nationalist movement began to develop during those years and steadily gained strength. Although retarded in the 1930s by the world economic depression, which was strongly felt in Indonesia, the movement revived during the Japanese occupation (1942-45) in World War II. A nationalist group under the leadership of Sukarno and Mohammad Hatta proclaimed an independent republic on 17 August 1945, adopted a provisional constitution providing for a strong presidential form of government, formed a revolutionary government, and resisted Dutch reoccupation. After four years of intermittent negotiations, frequent hostilities and UN intervention, the Netherlands agreed to Indonesian demands.

Sukarno became the first president of the new nation in 1949, and Hatta the vice president. Internal difficulties, fostered by a multiplicity of political parties inherited from Dutch colonial days, soon developed, and regional rivalries also threatened the unity of the new nation. Then as now, Java had some two-thirds of the country's population, but the great sources of wealth were found on the other, much less densely settled islands. Those living in the so-called Outer Islands believed too much governmental revenue was being spent in Java and too little elsewhere. After Vice-President Hatta, a Sumatran, resigned in December 1956, many in the Outer Islands felt they had lost their chief and most effective spokesman in Jakarta. Territorial army commanders in Sumatra staged coups and defied the central government; other

rebel movements developed in Sulawesi. The government took measures providing for greater fiscal and administrative decentralization, but discontent remained, and the rebellions were put down by force. Thereafter, Sukarno bypassed parliamentary procedures and pursued an increasingly authoritarian, anti-Western policy of “guided democracy.” In 1959, he decreed a return to the 1945 constitution, providing for a centralized form of government, and consolidated his control. On 27 December 1949, the Dutch recognized the independence of all the former Dutch East Indies except West New Guinea (Irian Jaya) as the Republic of the United States of Indonesia. A few months later, on 17 August 1950, the federal system was rejected and a unitary state, the Republic of Indonesia, was established under a new constitution. West New Guinea remained under Dutch control until October 1962, when the Netherlands transferred the territory to the United Nations Temporary Executive Administration (UNTEA). On 1 May 1963, Indonesia took complete possession of the disputed territory as the province of Irian Barat (West Irian); the province was renamed Irian Jaya in 1973. Indonesia, which aimed to acquire Sarawak and Sabah (which are on the island of Borneo with Kalimantan), opposed the formation of the Federation of Malaysia in September 1963 and announced a “crush Malaysia” policy. This policy was implemented by guerrilla raids into Malaysian territory that continued until August 1966, when a formal treaty was concluded between the two countries.

Communist agitation within the country and secessionist uprisings in central and eastern Java came to a head in the 30th of September Movement under the direction of Lt. Col. Untung. Sukarno, whose foreign policy had turned increasingly toward the Communist Chinese, may have had advance knowledge of the Communist-led coup attempt on 30 September 1965, which was directed against Indonesia’s top military men; the coup was crushed immediately by the army, however, and in the ensuing anti-Communist purges more than 100,000 persons (mostly Indonesian Chinese) lost their lives and another 700,000 were arrested. By mid-October, the army, under the command of Gen. Suharto, was in virtual control of the country. On 12 March 1966, following nearly three weeks of student riots, President Sukarno transferred to Suharto the authority to take, in the president’s name, “all measures required for the safekeeping and stability of the government administration.” In March 1967, the People’s Consultative Assembly (Majelis Permusyawaratan Rakyat—MPR) voted unanimously to withdraw all Sukarno’s governmental power and appointed Gen. Suharto acting president. One year later, it conferred full presidential powers on Suharto, and he was sworn in as president for a five-year term. The Congress also agreed to postpone the general elections due in 1968 until 1971. Sukarno died in June 1970. On 3 July 1971, national and regional elections were held for the majority of seats in all legislative bodies. The Joint Secretariat of Functional Groups (Sekber Golongan Karya—Golkar), a mass political front backed by Suharto, gained 60% of the popular vote and emerged in control of both the House of Representatives (DPR) and the MPR.

### Suharto Gains Control

In March 1973, the MPR elected Suharto to a second five-year term. Thus Suharto, with key backing from the military, began a long period of dominance over Indonesian politics. Under Suharto’s “New Order,” Indonesia turned to the West and began following a conservative economic course stressing capital development and foreign investment. In foreign affairs, Suharto’s government achieved vastly improved ties with the United States, Japan, and Western Europe while maintaining links with the USSR.

On 7 December 1975, following Portugal’s withdrawal from East Timor, a power struggle developed among various political

groups, including the Revolutionary Front for an Independent East Timor (Frente Revolucionário de Este Timor Independente—Fretilin). The left-wing independence movement achieved military dominance forcing the Indonesian government to send troops into the former Portuguese colony and assume full control of the territory. On 17 July 1976, the Suharto government incorporated the territory as an Indonesian Province. This action was neither recognized by the UN, which called on Indonesia to withdraw and allow the Timorese the right to self-determination, nor accepted by Fretilin. Discontent with the Suharto regime mounted after the elections of 1977, in which Suharto’s Golkar Party gained an overwhelming majority. The government acknowledged holding 31,000 political prisoners; according to Amnesty International, the total was closer to 100,000. Student riots and criticism of government repression resulted in further government measures: political activity was suspended, and leading newspapers were temporarily closed. Suharto was elected by the MPR to a third five-year term in 1978; during late 1977 and 1978, some 16,000 political prisoners were released, and the remainder of those detained in 1965 were released by the end of 1979. Golkar made further gains in the 1982 elections, and Suharto was elected for a fourth five-year term in March 1983.

To strengthen the government in the face of rising Muslim militancy, Suharto began to reestablish Sukarno as a national hero eight years after his death. Suharto called for greater loyalty by all political groups to the Pancasila (“five principles”) framed by Sukarno in 1945. The credo encompassed belief in the one supreme being, humanitarianism, national unity, consensus democracy, and social justice. Muslim groups strongly objected to the new government program and organized demonstrations that took place in 1984 and 1985. The war against Fretilin continued into the 1980s, with reports of massacres by government troops and severe economic hardship among the Timorese. Negotiations with Portugal, still considered responsible for decolonization by the UN, began in July 1983. In Irian Jaya, the Organization for a Free Papua (Organisasi Papua Merdeka—OPM), which desires unification with Papua New Guinea and has been active since the early 1960s, increased its militant activities in 1986. The Indonesian Army (ABRI) continued to play a dual military and socioeconomic function, and this role was supported by legislation in 1988. Golkar made further gains in the 1987 elections, and Suharto was again reelected for a fifth five-year term in March 1988. During disagreements over nomination procedures for the vice presidency ABRI’s influence was eroded.

Golkar sought to create national unity through its resettlement policies. From 1969–92, the Transmigration Program, a policy aimed redistributing population in Indonesia for political purposes and for demographic reasons resulted in almost 1,488,000 families moved from the Inner Islands to the Outer Islands. The Transmigration Program suffered from land disputes with local residents and environmental concerns over deforestation. The program alienated local populations and fueled ethnic conflict throughout the country. In Irian Jaya, the Free Papua Movement (OPM), attempted to sabotage the government’s program that was turning the indigenous Melanesian majority into a minority. Indonesian troops attempting to capture Melanesian separatists would cross the border into Papua New Guinea. Indonesia and Papua New Guinea agreed to provide greater cooperation on security and trade issues and the leader of OPM, Melkianus Salossa, was eventually arrested in Papua New Guinea and deported to Indonesia and sentenced to life in prison in 1991. In 1989, tension from land disputes in Java and the Outer Islands produced social unrest that resulted in clashes between villagers and the armed forces. In 1990 an armed rebellion in northern Sumatra at Aceh arose over hostility toward government exploitation of mineral resources and its transmigration program.

The government squashed the rebellion with a massive display of force.

Political openness was increasingly espoused during 1990–91 by political and labor organizations. In 1990 a group of prominent Indonesians publicly demanded that Suharto retire from the presidency at the end of his current term; in 1991 labor unrest increased with a rash of strikes, which the army was called in to quell. Government efforts to raise funds through a state lottery were opposed and finally forbidden on religious grounds when the country's highest Islamic authority declared the lottery "haram" or forbidden.

On 12 November 1991, during a funeral for a young Timorese killed in demonstrations against Indonesia's rule of East Timor, soldiers opened fire on the defenseless mourners provoking worldwide condemnation. Although the government took unprecedented steps to punish those involved, western governments threatened to suspend aid, and demands were made linking aid to human rights issues. The Netherlands' demand linking its aid to improvements in human rights was rejected when Suharto refused Dutch economic aid on 25 March 1992. In the aftermath of these events Suharto spoke at the Nonaligned Movement summit in Jakarta and to the UN General Assembly suggesting that developing nations needed to take a more prominent role in opposing North-South economic inequality. Suharto's challenge received a cool reception from Western nations, but it clearly signaled a reassessment of Indonesia's future international presence. In early December 1992 government forces captured Jose Alexandre (Xanana) Gusmao, leader of the Fretilin, who was hiding in Dili, in East Timor. On 21 May 1993 he was sentenced to life imprisonment. In late 1992, tensions between Muslims and Christians increased to the point of violence and vandalism of churches and mosques. Suharto requested that religious tolerance be practiced. By 1993 US policy toward Indonesia shifted toward criticism of Indonesia's rule in East Timor, and a threat to revoke trade privileges pursuant to Indonesia's treatment of the largest independent trade union, the SBSI (Indonesian Prosperous Labor Union). Adding further scrutiny to Indonesia's tarnished international image was a UN resolution on Indonesia's human rights violations placing the country on a rights "watch" list in 1993.

Although its total share of votes declined, Golkar won the 1992 elections, securing 282 of the 400 elective seats. In March 1993, Suharto was elected to a sixth term as president. Try Sutrisno, the commander in chief of ABRI, was chosen as vice president. Despite Golkar's victory, the country continued to experience economic and political difficulties. A major scandal occurred in March 1993 with the sale of \$5 million in fake shares on the Jakarta Stock Exchange (JSE). In January 1994 President Suharto inaugurated 12 electric power plants with combined installed capacity of more than 2,000 MW. Violent labor unrest broke out in Medan in April 1994 with the mysterious death of a union activist. Ethnic Chinese, who are only about 3% of the population of Indonesia, were the target of demonstrators; one Chinese factory manager was killed. The success of the Chinese is widely envied and they are accused of exploiting the workers. On 21 June 1994 the government closed *Tempo* and two other publications by revoking publishing licenses. *Tempo* was accused of violating the journalistic code of ethics and pitting one person against another to the point where it affected national security based on its coverage of a controversial purchase of 39 warships from the former East German navy. Other publications were accused of more technical infractions including the failure to comply with registration procedures and publishing political and general news in spite of license restrictions limiting a popular tabloid's coverage to detective stories and crime stories.

Violent outbreaks, clashes, and riots increased in Indonesia from 1995–97. Riots between Catholics and Muslims broke out

in East Timor in September 1995, leaving Dili's central marketplace in ashes. This was before Timor's Roman Catholic bishop, Carlos Filipe Ximenes Belo, and pro-independence advocate José Ramos-Horta shared the Nobel Peace Prize in 1996. Many incidents of rural unrest, including land disputes and ethnic strife, continued in 1995–96. The campaign for the 29 May 1997 elections was an unusually violent one, dubbed the "festival of democracy," as voters and demonstrators brought rocks, bricks, knives, machetes, and even snakes to the campaign. There was a ban on parades of trucks, cars, and motorcycles. This followed the uproar resulting from the ouster of Megawati Sukarnoputri as the Indonesian Democratic Party chairperson in June 1996. Her political involvement was seen as a rallying point for democratic change. Golkar took 74% of the vote in elections that were seen to be marked by fraud and over 200 people were killed during the campaign. The Muslim-oriented United Development Party (PPP) obtained 22%, and 3% went to the PDI.

In other violence, hundreds of lives were lost in a full-scale ethnic war in Kalimantan, as clashes between the Dayaks, the indigenous people of the area, and Muslim settlers from the island of Madura, broke out in December 1996. The fighting led to Malaysia closing part of its border with Indonesia in February 1997. In 1997, the country experienced the dual effect of increased ethnic conflict and economic decline. These twin forces were the harbinger for the decline of Golkar and the departure of Suharto from Indonesian politics. In the May 1997 legislative elections, Golkar managed to allegedly secure 74.3% of the popular vote, amid massive violence that killed over one hundred political activists. Violence continued after the elections and was worsened by the Asian economic crisis. After severe devaluation of the rupiah in August and October of 1997, Suharto accepted an International Monetary Fund (IMF) loan package but failed to carry out IMF-imposed conditions for economic reform. By December, news of Suharto's worsening physical health also cast doubt on his ability to see Indonesia through a worsening economic and political situation.

After Suharto won an unopposed presidential election in March 1998, student protests swept Jakarta and ethnic tensions also swelled as Chinese merchants were attacked. In East Timor, José Ramos-Horta urged the government to agree to a cease-fire and cooperation with the UN to determine the ultimate governance structure for the country. On 21 May 1998, Suharto resigned as president, after hundreds of people were killed, looting swept through the capital, and thousands of foreigners living or working in Indonesia were evacuated in months of unrest. B. J. Habibie, the former vice president, was sworn in as president. Upon assuming the presidency, he adopted a conciliatory posture toward defusing the East Timor crisis by stating that East Timor may be given "special status" with increased autonomy within Indonesia. In August 1998, Portugal and Indonesia met to discuss the future of the province. After significant pressure from the United Nations, Australia, and Portugal, Habibie agreed on 27 January 1999 to hold a referendum for the province. Despite widespread violence instigated by the pro-Indonesia armed militia, 98% of voters cast their ballots on 30 August, with 78.5% in favor of independence. This was followed by a rampage by pro-Indonesia forces who looted and burned the entire province creating a major humanitarian situation and refugee crisis. With the aid of Australian troops, the United Nations intervened with approximately 8,000 troops to restore order and establish humanitarian programs. Meanwhile, in Irian Jaya and Aceh, the military forces and the national police continued to commit extra-judicial killings in 2000.

B. J. Habibie's political fortunes waned in the aftermath of the UN-sponsored referendum in East Timor. His state of the nation address to the People's Consultative Assembly in October 1999



did not allay the perception that he had not exercised the appropriate leadership in handling domestic and international matters. Pressure on Habibie mounted and he subsequently resigned as a result of a no confidence vote. In 20 October elections in the People's Consultative Assembly, the first free elections in 44 years, Abdurrahman Wahid, the leader of the National Awakening Party and a near-blind Muslim cleric, was pitted against Megawati Sukarnoputri. Megawati's party won the most votes, but rather than negotiate with other politicians to form a coalition, Megawati allowed the more experienced Wahid to become president. Despite protest from her supporters, Megawati asked backers to refrain from violent protest. She became vice president. Wahid worked to curb the influence of the military and promised major reforms in the government.

In July 2001, Wahid declared a state of emergency and ordered parliament dissolved, after months of opposition from legislators over the competence of his administration. On 23 July 2001, legislators in the People's Consultative Assembly voted 591–0 to remove Wahid from the presidency. He had been charged with corruption and incompetence, being accused of embezzling US\$4.1 million in state funds and illegally accepting US\$2 million from the Sultan of Brunei. He was cleared of all charges that May, but the parliament continued to insist upon impeachment proceedings based on dissatisfaction with his administration. Megawati was sworn in as president immediately after Wahid's removal.

Megawati, a Muslim who is however identified with her nationalist-secular policies, faced demonstrations upon assuming office from strict Islamic fundamentalists calling for the establishment of Shari'ah law. She also had to face the Aceh independence movement, as more than 1,000 people were killed in the province in 2001, adding to the thousands more that had been killed in the past decade. Megawati expressed support for the United States-led war on terrorism following the 11 September 2001 terror attacks on the World Trade Center and the Pentagon, and she visited the United States the following week.

Following the fall of Suharto, Indonesia experienced a resurgence of Islamic activity. The main extremist Islamist organizations in Indonesia are Darul Islam, the Islamic Defender's Front and Laskar Jihad. Laskar Jihad is the most prominent and organized of Indonesia's radical Islamist organizations, and between 300–400 new members joined within the first month following the 11 September attacks. On 12 October 2002, Indonesia experienced its own terror attack. Two nightclubs in the resort town of Kuta on the island of Bali were bombed, killing over 190 people, the majority young Western tourists. Many of the casualties came from Australia. On 18 October, President Megawati issued an emergency decree to give the government expanded powers to fight terrorism. This act came after international criticism directed at her government for not taking the necessary steps to address the problem of terrorism. Megawati permitted the arrest of Abubakar Bashir, a Muslim cleric who is the spiritual leader of Jemaah Islamiyah. Jemaah Islamiyah was accused of staging the Bali bombings. It has links to the al-Qaeda organization.

Following its independence referendum held in August 1999, East Timor was governed by UNTAET (the United Nations' Transitional Administration in East Timor), and a National Consultative Council. A constituent assembly was elected in September 2001 with the task of writing a constitution for the country. In April 2002 José Alexandre "Xanana" Gusmão was elected president, and on 20 May 2002 East Timor became an independent nation.

In June 2000, 2,500 activists representing 250 tribal groups in Irian Jaya declared the region—which they call West Papua—a sovereign state. The region was granted limited autonomy by parliament in October 2001, but many inhabitants, including

independence rebels, rejected the measure and called for full independence. On 9 December 2002, the government and the separatist Free Aceh Movement (GAM) signed a peace deal aimed at ending over three decades of violence. The accord provides for autonomy and free elections in Aceh; in return the GAM must disarm.

Demonstrators protested price increases on basic necessities such as fuel and electricity in January 2003, commodities that have been rooted in corruption. Megawati, originally seen as a friend of the poor, was urged to resign by some for failing to eliminate corruption. She will stand as a candidate for the 2004 presidential elections.

### 13 GOVERNMENT

The provisional constitution of 17 August 1950 provided for a unitary republic. The president and vice president, "elected in accordance with rules to be laid down by law," were to be inviolable, but cabinet ministers were jointly and individually responsible. The house of representatives was to be a unicameral parliament. Its members were elected by a system of proportional representation for a four-year term, but it might be dissolved earlier by presidential decree. Sukarno and Hatta, the first president and vice president, were elected by parliament; no term of office was stipulated by the constitution. In practice, the government was not truly parliamentary, since President Sukarno played a role far greater than is usual for the head of state in a parliamentary system. He was the great national revolutionary hero, and his popularity with the masses enabled him to exert great influence on government policy. Parliament was not strong enough to hold the president to the role prescribed by the constitution. In 1957, Sukarno adopted a more authoritarian policy of "guided democracy." He further strengthened his powers in 1959 by decreeing a return to the provisional 1945 constitution, which called for a strong president and stressed the philosophy of Pancasila as a national ideology. On 5 March 1960, Sukarno suspended parliament and began to rule by decree. In June, he appointed a new 283-member parliament drawn from 9 political parties and 14 "functional groups." In mid-August, Sukarno named another 326 legislators who, with the 283 members of parliament, were to constitute the Provisional People's Congress. This congress was to meet at least once every five years and to be responsible for drawing up the outlines of national policy and electing the president and vice president. In 1963, the congress elected Sukarno president for life. Following the political upheavals of 1965–66, the army, led by Gen. Suharto, moved to establish a "New Order." In 1967, Sukarno formally relinquished power to Suharto, who had become Indonesia's effective ruler in March 1966. Suharto reorganized the cabinet, making all of its 12 ministers responsible to him. In February 1968, he dismissed 123 members of the People's Consultative Assembly (Majelis Permusyawaratan Rakyat or MPR), an outgrowth of the Provisional People's Congress, and replaced them with his own nominees. In June of that year, following his appointment to a five-year term as president, Suharto formed a new cabinet, with himself as prime minister and defense minister.

On 3 July 1971, general elections—the first since 1955—were held for portions of two reconstituted national bodies, a 460-seat house of representatives (Dewan Perwakilan Rakyat or DPR) and a 920-seat MPR. In 1987, the memberships were increased to 500 and 1,000, respectively. The number of seats in the MPR was later reduced to 700. The People's Consultative Assembly includes the DPR plus 200 indirectly selected members; it meets every five years to elect the president and vice president and to approve broad outlines of national policy and also has yearly meetings to consider constitutional and legislative changes. Legislative responsibility is vested in the DPR, which consists of 462 elected members and 38 members appointed by the president

from the military (Armed Forces of People's Republic of Indonesia, Angkatan Bersenjata Republik Indonesia or ABRI). Under the Suharto government, the MPR acted as a consultative body, setting guidelines for national policy; its principal legislative task was to approve the Broad Outlines of State Policy. In March 1973, the MPR elected President Suharto to a second five-year term; he was reelected to a third term in 1978, a fourth in 1983, a fifth in 1988, a sixth in 1993, and a seventh in 1998. However, Suharto was forced to step down in May 1998 in favor of his vice-president, B. J. Habibie. Habibie sought to decrease the role of the military in Indonesian politics and promised major political and economic reforms. He too was forced to resign after the People's Consultative Assembly questioned his leadership. In a surprise move, the body chose Abdurrahman Wahid as president in October 1999. Wahid, a well respected Muslim cleric, promised democratization and an end to corruption. Ironically, Wahid was eventually removed from office in July 2001, for corruption and political incompetence. Megawati Sukarnoputri, the daughter of Sukarno, became president. She also took on the perennial problem of corruption, but had to face the issue of international terrorism as well.

In August 2002, the People's Consultative Assembly approved constitutional amendments due to take effect in time for presidential elections in 2004. Seats in parliament will no longer be reserved for the armed forces (currently standing at 38 seats); in return, members of the military will be allowed to vote. The assembly rejected the imposition of Shari'ah for Muslims. After 2004, a second standing body will function as a senate in Indonesia—the Regional Representative Council. But most important, parliament will no longer elect the president; instead, he or she will be directly elected. President Megawati initially opposed the change to direct election, but then accepted it.

#### 14 POLITICAL PARTIES

Until the autumn of 1955, when the first national elections were held, members of the House of Representatives were appointed by the president in consultation with party leaders. Of the 37,785,299 votes cast in the 1955 general election, six parties received more than one million votes each: the Indonesian Nationalist Party (Partai Nasional Indonesia—PNI), 22.3% of the total; the Council of Muslim Organizations (Masjumi), 20.9%; the Orthodox Muslim Scholars (Nahdlatul Ulama—NU), 18.4%; the Indonesian Communist Party (Partai Komunis Indonesia—PKI), 16.4%; the United Muslim Party, 2.9%; and the Christian Party, 2.6%. In all, 28 parties won representation in the 273-member Parliament. Almost all the political parties had socialist aims or tendencies. The PNI, many of whose prominent members were leaders in the prewar nationalist movement, represented a combination of nationalism and socialism. Government officials and employees had originally constituted its backbone, but subsequently it grew powerful among labor and farmer groups as well. The Masjumi was more evenly distributed throughout Indonesia than any other party. Although it contained a large percentage of the small middle class, its principles were markedly socialist, owing to the influence in the party of a religious socialist group. The NU, which broke away from the Masjumi largely because of differences in religious outlook, represented the orthodox but not strictly conservative views of the rural people and religious teachers. The Christian Party was founded by Protestants; a smaller Roman Catholic Party was also formed. On 17 August 1960, Sukarno ordered the dissolution of the Masjumi and socialist parties on the grounds of disloyalty. A month later, on 13 September, political action by all parties was barred.

Early in 1961, notice was given that all political parties were required to apply for permission to function. On 15 April, parties certified to continue in existence included the PKI, PNI, NU, Catholic, Islamic Association, Indonesian, Indonesian Protestant

Christian, Indonesian Islam Sarekat, and the League for Upholding Indonesian Independence. The PKI, which at the height of its power in 1965 had an estimated three million members and was especially strong on Java, was banned by Gen. Suharto in March 1966, by which time more than 100,000 PKI members were estimated to have been killed in riots, assassinations, and purges; many more PKI members were arrested. Since then, the party has operated underground. The Masjumi dissolved in 1960. Under the Suharto government, political opposition in Indonesia had become increasingly quiescent. Prior to the 1971 elections, the government formed a mass organization, known as Golkar (Golongan Karya), as the political vanguard for its "New Order" program. Golkar drew upon elements outside traditional party ranks—the civil service, labor, youth, cooperatives, and other groups—and succeeded in effectively circumventing the parties' ability to play a national role. Prior to the 1971 voting, a government-appointed election committee screened all prospective candidates, eliminating 735 from the initial list of 3,840; only 11 of those eliminated were from Golkar. Candidates were forbidden to criticize the government or to discuss religious issues. In the elections, held on 3 July 1971, Golkar candidates received 63% of the vote, while winning 227 of the 351 contested seats in the House of Representatives. Besides Golkar—which is not formally considered a political party—nine parties took part in the elections, as compared with 28 in 1955. The Orthodox Muslim NU placed second in the balloting, with 58 seats; the moderate Indonesian Muslim Party (Parmusi), an offshoot of the banned Masjumi Party, won 24 seats; and the PNI, Sukarno's former base, won only 20 seats. Four smaller groups—the Muslim Political Federation, the Protestant Christian Party, the Catholic Party, and the Islamic Party—divided the remaining 22 seats. The government subsequently announced that 57 million persons, or over 95% of the electorate, had taken part in the voting. An act of 1975 provided for the fusion of the major political organizations into two parties—the United Development Party (Partai Persatuan Pembangunan—PPP) and the Indonesian Democratic Party (Partai DemoKrasi Indonesia—PDI)—and Golkar. The PPP, Golkar's chief opposition, is a fusion of the NU, Parmusi and other Muslim groups, while the PDI represents the merger of the PNI, the Christian Party, the Roman Catholic Party, and smaller groups. In the third general election, held on 2 May 1977, Golkar won 232 seats in the House of Representatives, against 99 seats for the PPP and 29 seats for the PDI. Golkar made further gains in the elections of 4 May 1982, winning 246 of the 364 contested seats, against 94 for the PPP and 24 for the PDI. Both opposition parties charged that the government had falsified the vote totals. Rioting marred the campaign period, and 35,000 army troops were stationed in Jakarta on election day. In the election of 23 April 1987, Golkar won 292 of the 400 elected seats (73.2%), against 64 for the PPP (16%), and 44 for the PDI (10.8%).

For the 1992 election the campaign rules banned automobile rallies and picture posters of political leaders; large outdoor rallies were discouraged, radio and televised appeals had to be approved in advance by the elections commission, and no campaigning took place in the five days before the elections. In 1992 there were 17 million first-time voters in a population of 108 million registered voters. More than 97 million Indonesians voted, 90% of the registered voters. Golkar won 68% of the popular vote, down by 5% from 1987. The PPP took 17% of the vote. The PDI took 15% of the vote compared to 10.9% in 1987. These results in terms of DPR seats were: Golkar took 281 DPR seats (down 18 seats from 1987); PPP took 63 seats (down 2 seats from 1987); and the PDI took 56 seats (an increase of 16 seats).

The most violent election campaign in recent years was in 1997 as the ruling Golkar party took 74% of the vote. The 29 May 1997 elections were marked by fraud. More than 200

people were killed in the campaign, which banned motorcades. The PPP took 22% of the vote, and the PDI, 3%. The 7 June 1999 elections resulted in a victory for Megawati Sukarnoputri's PDI-P (or Indonesia Democracy Party–Struggle); however, she relinquished the presidency in favor of Abdurrahman Wahid. The PDI-P took 37.4% of the vote, Golkar took 20.9% of the vote, Wahid's National Awakening Party (PKB) took 17.4% of the vote, and the PPP took 10.7%. Megawati became president on the removal of Wahid in July 2001. The next elections are due to be held in 2004.

## 15 LOCAL GOVERNMENT

The structure and organization of local governments follow the pattern of national government. Indonesia is divided into 27 provinces. There are three special territories, namely the capital city of Jakarta, the special territory of Yogyakarta, and the special territory of Aceh. Each province is administered by a governor chosen by the central government from candidates proposed by the provincial assembly. Governors must be approved by the president. Provinces are divided into 357 districts (*kabupatens*), administered by Bupati appointed in the same manner as governors. Both provincial and district governments are granted autonomy. As of 1993 there were also 56 municipalities (*kotamadyas*) headed by a mayor (*walikota*), 3,625 subdistricts (*kecamatan*) headed by a *camat*, and 67,033 villages. *Desa* are rural villages and *kelurahans* are urban villages. The head of a *desa* is elected by the villages community. The head of a *kelurahan*, a *lurah*, is a civil servant appointed by a *camat* on behalf of the governor. A unique feature of village life is the village council of elders, composed of 9 to 15 prominent village leaders. With the implementation of decentralization on 1 January 2001, the 357 districts have become the key administrative units responsible for providing most government services.

## 16 JUDICIAL SYSTEM

Since 1951, the administration of justice has been unified. Government courts, each with a single judge, have jurisdiction in the first instance in civil and criminal cases. In December 1989, the Islamic Judicature Law gave wider powers to Shari'ah courts. The new law gave Muslim courts jurisdiction over civil matters, including marriage. Muslims and non-Muslims can decide to appear before secular courts. The supreme court is the highest court in the country; its primary function is review of decisions by lower courts. The high court hears appeals in civil cases and reviews criminal cases. Judges are appointed by the central government. In the villages, customary law (*adat*) procedures continue unchanged.

Islamic law (*Shari'ah*) governs many noncriminal matters involving Muslims, including family law, inheritance and divorce; a civil code based on Roman law is applied to Europeans; a combination of codes is applied to other groups such as ethnic Chinese and Indians. Since 1985, the supreme court since 1985 has the power to review ministerial decrees and regulations for legality and conformity to the constitution, but it has yet to use this power. The supreme court does not have the power to review the constitutionality of laws passed by the national assembly. Military and administrative courts also exist below the supreme court level. Codifying these disparate forms of law will require considerable work.

## 17 ARMED FORCES

The Indonesian armed forces consist of an army, a navy, and an air force, totaling 297,000 personnel in 2002 with reserves numbering 400,000. The army of 230,000 includes provincial and special forces. The air force of 27,000 personnel has 90 combat aircraft. The navy, with 40,000 personnel (including naval aviators and marines), has two submarines, 17 frigates, and

58 large patrol craft. Paramilitary forces include a 195,000-man police force and three other armed security forces. Indonesia spent \$1 billion for defense in 1998–99 or 1.3% of GDP. Indonesia provides support to peacekeeping missions in five regions. It faces opposition forces of approximately 2,150.

## 18 INTERNATIONAL COOPERATION

Indonesia was admitted to UN membership on 28 September 1950 and is a member of ESCAP and all the nonregional specialized agencies. Following the seating of Malaysia in the Security Council, Indonesia withdrew from the UN on 7 January 1965; it resumed its seat on 28 September 1966. Indonesia is also a member of the Asian Development Bank, Colombo Plan, G-77, APEC, the WTO, International Tin Council, OPEC, and other intergovernmental organizations. Indonesia became one of the founding members of ASEAN in 1967. In March 1970, a treaty of friendship was signed between Indonesia and Malaysia; the treaty also established the boundary between the two countries in the Strait of Malacca. Indonesia is a signatory to GATT and the Law of the Sea.

## 19 ECONOMY

In colonial times Indonesia depended upon the export of a relatively small range of primary commodities. In the 17th and 18th centuries, the basis of the export-oriented economy was spices. In the 19th century, it shifted to sugar and coffee; in the 20th century, production of oil, tin, timber, and rubber has become fundamental. Despite export gains, however, subsistence agriculture, with rice as the chief crop, remains the principal occupation of a large proportion of Indonesians, and standards of living are low. Indonesia's record of economic growth and diversification is among the most successful in the developing world; but with the onset of the Asian financial crisis in mid-1997, with Indonesia at the epicenter, and the political upheavals and unrest that followed, economic growth has been arrested. The 1998 political unrest and drought that contributed to a recession hit the country hard, severely depressing the economy and halting economic growth.

Indonesia is exceptionally rich in coal, oil, and other industrial raw materials, but industrial development has lagged in relation to the size of the population and the national income. In part, this was a consequence of expropriation policies carried out by Sukarno and of chronic inefficiency and corruption among government officials. After the 1964–66 political crisis, the government of President Suharto took steps to stabilize the economy. Exporters were allowed to keep a larger proportion of their foreign exchange earnings. The government also imposed strict controls on imports, encouraged foreign investment, returned many nationalized assets, ended nonproductive projects, and reduced government control of the economy. The inflation rate, which had been 635% in 1966 and 120% in 1967, fell to 85% in 1968 and further declined to 10% in 1971. National economic planning was used to guide economic growth. Under the 1969–74 plan, the government successfully introduced fiscal and credit restraints, rescheduled internal debts, returned expropriated properties, liberalized foreign investment laws, and actively sought assistance from overseas. Economic growth was set back by the near-collapse of Pertamina, the giant government-backed oil conglomerate, in 1975 and the financing of its \$10.5 billion debt, but accelerated as rising oil prices increased revenues in the late 1970s. The economy was again severely strained in the early 1980s as falling oil prices forced the government to cut back on its spending plans. Legislation requiring majority participation of ethnic Indonesians (*pribumi*) in all enterprises formed since 1974 has also slowed foreign investment. Indonesia's obligation to reduce production of oil, its chief export, in line with OPEC agreements, together with the decline in non-oil export earnings brought about by the worldwide recession, severely strained the

government's resources. In an effort to meet the nation's developmental needs, Suharto was forced to make the unpopular move, long advocated by the IBRD and IMF, of ending subsidies on food and reducing subsidies on kerosene and other fuels. He also announced new trade policies to spur exports in an effort to reverse the nation's worsening economic condition.

In the 1980s policies were designed to reduce restrictions on imports and to encourage foreign investment. In areas of trade, debt, and currency management, Indonesia took a pro-active stance that was internationally acknowledged by increasing foreign investment and endorsement by multilateral organizations. Efforts focused on bureaucratic reform and efficiency, incentives to private investors, and diversification of sources of foreign exchange earnings resulted in steady growth in the manufacturing sector and in industrial exports. Specific structural reforms were deregulation of foreign investment allowing broader ownership rights in export oriented manufacturing sectors; and streamlining of the investment process, including the adjustment of procedural requirements; progressive reduction in tariffs and non-tariff barriers; major banking deregulation that opened the banking sector to foreign investment; privatization of the Jakarta Stock Exchange; the elimination of major subsidies and supports; and increasing participation of the private sector. The basis of recent Indonesian development still consists of smallholders (0.5 ha on average) in a rural-based economy with pockets of industry and large-scale mining and forestry, and a sizeable range of state-owned enterprises.

In 2000, however, the economy showed signs of being on the way to recovery with a stronger-than-expected real GDP growth rate of 4.8%, a budget deficit amounting to only 3.2% of GDP (below the government's target of 4.8%), and a surprisingly low inflation rate of 3.75%. On 4 February 2000, the government, now headed by Abdurrahman Wahid, signed for a second agreement under the Extended Fund Facility (EFF) of the IMF, in this case involving a \$5 billion line of credit. In April 2000, a second agreement was reached with the Paris Club members for the rescheduling another \$5.8 billion of principal owed on official debt. From 1989 to 1993 real GDP growth averaged 6.7%. Restrictive monetary policy and a conservative fiscal stance held inflation to below 10%. Amid efforts to keep the economy from overheating, real growth climbed to 7.3% and 7.5% in 1994 and 1995, respectively, before peaking in 1996 at 7.8%. Inflation was held to single digits, and the official unemployment rate was 3%, although underemployment was estimated at as high as 4%. In nominal terms, per capita income rose above \$1000, and in purchasing parity power (PPP) terms, at least three times the nominal figure. Economic catastrophe struck in mid-1997, fueled by a loss of investor confidence in the region, particularly in the weaker economies, as Hong Kong came under Chinese control in July.

The collapse of currencies began in July in Thailand but spread swiftly to Indonesia. Within a year 75% to 80% of all businesses in Indonesia were technically bankrupt as the rupiah went from about 2,600 to one US dollar in June 1997 to a low of 17,000 to one US dollar in June 1998. GDP growth, which had been 8% in the first quarter of 1997, and 7% in the second quarter, fell to 3% in the third quarter and 2% in the fourth. In November 1997 an international bail-out package was arranged that included a stand-by agreement with the IMF with a \$11.5 billion line of credit, an \$8 billion loan from the World Bank and the Asian Development Bank (ADB), \$5 billion loan from its own reserves, and \$3 billion in US loan guarantees. The extended impact of the crisis can be seen in the figures for 1998, when real GDP fell by over 13%, industrial production was down by 18.24%, and the net outflow of invested capital reached of about \$13.8 billion.

Economic distress erupted in bloody pogrom against resident Chinese in which over 1000 people were killed, dozens of women

raped, over 2,500 shops, including about 40 shopping malls, were looted or destroyed, and the streets were left strewn with more than 1,000 vandalized vehicles. On 19 May, students took over the parliament building, and two days later President Suharto resigned, ending 32 years of autocratic rule. His designated successor was B. J. Habibie, the architect of Indonesia's ambitious shipping and aircraft manufacturing industry. Habibie promised elections, which were held in 1999. In the meantime, in August 1998, a second agreement was concluded with the IMF, in this case for a \$7.4 billion line of credit offered under the terms of its Extended Fund Facility (EFF). The next month, the government reached an agreement with the Paris Club for rescheduling \$4.6 billion of principal owed on official (foreign aid) debts.

The government's official debt situation was being radically altered. Pre-crisis, the government had incurred virtually no domestic debt, borrowing all capital expenditures abroad, primarily from the World Bank and the Asian Development Bank (ADB), and its external debt was at an unproblematic 25% to 27% of GDP. In 1998, total debt leapt to 78% of GDP, but with no domestic borrowing. In 1999, however, domestic borrowing went from \$0 to \$68.7 million, and combined with a record \$75.8 million in foreign loans, government debt reached a peak of 102% of GDP. In 1999 real growth returned, but only at an anemic 0.2% level, as there was a net outflow of investment funds of almost \$10 billion—a net loss of \$2.7 billion in FDI and a net loss of \$7.2 billion in portfolio investment, according to Bank Indonesia figures. The outflow continued, as did rising violence throughout the country around the parliamentary election, and, of particular international concern, before and after the referendum on the independence of East Timor. Economic frustrations doubtless aggravated the conflicts. In February 1999 the government estimated that 27% of the population was living in poverty. Inflation, though less than the 1998 average rate of 58.44%, was still high at 20.46%.

Unfortunately, both internal and external factors soon contrived to slow the momentum of the recovery. In December 2000, Indonesia's February agreement with the IMF-EFF for the \$5 billion follow-on credit went into suspension as IMF staff found themselves unable to complete the program's third review. As both a cause and an effect of calls for his impeachment and removal, President Wahid, through a combination of neglect and defiance, was failing to implement the requirements of the IMF programs. Tensions were increased as thousands of Wahid's Islamic followers vowed to fight to the death his removal from office. It was not until August 2001, after Wahid's removal in July and the installation of Vice President Megawati Soekarnoputri as president, that discussions with the IMF could be reopened, and a new Letter of Intent negotiated under what were now changed circumstances. Megawati's pro-reform, pro-market economic team promised a favorable response in the international economy, but this was cut short, first by the global economic slowdown of 2001, and then the aftershocks of the 11 September 2001 terrorist attacks on the United States. In Indonesia, real growth rates of 5% and 4% in the first two quarters of 2001 fell to 3% and 2%, respectively in the last two quarters, producing an average 3.3% growth for the year. Inflation returned to double digits, at 11.5%, and in February 2002 the government reported that poverty had had an uptick, increasing to 14.5% of the population. The industrial production index after year-on-year increases every quarter in 2000 and for the first three quarters of 2001, fell 6% in the fourth quarter. The net outflow of capital continued, reaching \$9 billion for 2001. Some \$8.3 billion of the net outflow reflected divestment by private direct and portfolio investors, but \$700 million was on the official capital account and reflected delays in the disbursement of adjustment loans due to the political turmoil of the first half of the year.

In the first two quarters of 2002, year-on-year declines in Indonesia's Industrial Production Index worsened, to about 12% and 14%, respectively. Net outflow of private capital continued, although at a reduced rate. More positive signs were an appreciation of the rupiah from 10,500 to one US dollar in December 2001 to 8,800 to one US dollar in May 2002; a spurt of private consumption spending of 10% (yoy) in the last quarter of 2001, which was still a positive 6.4% (yoy) in the second quarter of 2002; and a rise of the Jakarta Stock Exchange Index from 390 to 530. In the second quarter of 2002, the IMF made the decision that the Indonesian budget had been sufficiently reined in for it to extend its financial involvement in Indonesia until the end of 2003 (instead of ending it at the beginning of 2002), which was a necessary prerequisite for further dealings with Paris Club on rescheduling any of the \$40 billion sovereign external owed to the Paris Club members, or for opening of negotiations with the London Club on rescheduling the \$1.3 billion of commercial loans owed to members of that creditors' club. On 12 April 2002, Indonesia concluded its third post-crisis agreement with the Paris Club, rescheduling \$5.4 billion of principal and interest owed. On 6 September 2002 Indonesia reached an agreement with the London Club for the rescheduling of its commercial debt to its members, which involved among its terms an extension of the repayment period to seventeen and a half years. The total debt-to-GDP ratio for the government fell from 90% for 2001 to a more manageable 70% in 2002, and the annual budget deficit was estimated to have fallen to below 2% of GDP, bettering the IMF-set target of 2.5%. Hopes that Indonesia might be safely on its way out of its post-crisis stagflation, even despite the continued global economic malaise, were shattered by the terrorist bombs in Bali on 12 October 2002 aimed at Western tourists vacationing on Kuta Beach. Beyond the death toll of nearly 200, which was not that unusual for the many trouble spots in the country, was the message that tourist enclaves and, perhaps, the industrial enclaves, were no longer safe for foreign visitors and foreign investors. After the Bali bombings, the rupiah depreciated to more than 9,000 to one US dollar and the Jakarta Stock Exchange Index fell back below 400, though by the beginning of 2003 both indicators of investor confidence had returned to near their pre-bombing levels. The World Bank, which had predicted a 3.5% real growth rate for Indonesia in 2002, reduced its prediction to 3.2%. Analysts agreed, however, that a real growth rate of at least 6% would have been necessary to finally bring the economy out of its post-crisis slump. Unfortunately, much depends not on the government's policies, and the real economic advantages that Indonesia continues to enjoy—ample natural resources, a relatively skilled work force, a strategic location, and a large and expanding internal market—but on what happens in the global economy in which it is embedded and over which it has little control.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Indonesia's gross domestic product (GDP) was estimated at \$687 billion. The per capita GDP was estimated at \$3,000. The average inflation rate in 2001 was 11.5%. 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 17% of GDP, industry 41%, and services 42%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1.190 billion or about \$6 per capita and accounted for approximately 0.8% of GDP. Worker remittances in 2001 totaled \$1.046 billion. Foreign aid receipts amounted to about \$7 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 \$759. 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 47% of household consumption was spent on food, 6% on fuel, 5% on health care, and 14% on education. The richest 10% of the population accounted for approximately 26.7% of household consumption and the poorest 10% approximately 4.0%. It was estimated that in 1999 about 27% of the population had incomes below the poverty line.

## 21 LABOR

In 1999, the labor force numbered 99 million people. In that year, 45% were engaged in agriculture, 16% in industry, and 39% in services. Unemployment figures for 2001 stood at 8%, but actual unemployment likely was much higher, and about half of the workforce is underemployed.

The law protects the right to form and join unions to all workers regardless of political affiliation. Ten or more workers can unionize, and thousands of unions have been registered. However, a union can be banned by the government if its foundation goes against the constitution. Sometimes there are clashes between different unions within one workplace. With the exception of civil servants, workers have the right to strike after mandatory mediation. Collective bargaining is utilized, but most contracts do not provide workers with more than the government minimum standards.

Children under age 15 are prohibited from working more than four hours per day, but this limit is exceeded by millions of child laborers. In addition, children are not legally permitted to work in hazardous occupations, but child labor laws are not enforced. There is no national minimum wage. Wages are set by area wage councils who estimate the amount a worker needs to earn to provide for his or her basic needs. In 2002, the minimum wage in Jakarta was \$39 per month. However, many employers do not pay this minimum wage. The 40-hour workweek and a seven to eight-hour day are established by law throughout Indonesia, although these standards are not regularly enforced.

## 22 AGRICULTURE

About 45% of Indonesian workers are engaged in agriculture, which accounts for 17% of GDP in 2001. Some 31 million ha (76.6 million acres) are under cultivation, with 35% to 40% of the cultivated land devoted to the production of export crops. Some 60% of the country's cultivated land is in Java.

There are three main types of farming: smallholder farming (mostly rice), smallholder cash cropping, and about 1,800 large foreign-owned or privately owned estates, the latter two producing export crops. Small-scale farming is usually carried out on modest plots—those in Java average about 0.8–1 ha (2–2.5 acres)—often without benefit of modern tools and methods, good seed, or fertilizer. Although rice, vegetables, and fruit constitute the bulk of the small farmer's crops, about 20% of output is in cash crops for export, the chief of which is rubber. Of the estate-grown crops, rubber, tobacco, sugar, palm oil, hard fiber, coffee, tea, cocoa, and cinchona are the most important. Dutch, United Kingdom, United States, French, and Belgian capital financed estate agriculture in colonial times, with the Dutch share being the largest. Management of Dutch interests was taken over by the Indonesian government in December 1957; in 1964, the 104 UK-operated plantations were confiscated without any compensation, and Indonesian managers were appointed. The following year, the US-operated plantations were expropriated, and all foreign plantations were placed under the control and supervision of the Indonesian government. In 1967, some of the estates seized in 1965, including the US-leased rubber

plantations, were returned, but the majority were retained by the government.

Because the population is rapidly increasing, the government seeks to achieve food self-sufficiency through expansion of arable acreage, improved farm techniques (especially the use of fertilizers and improved seeds), extension of irrigation facilities, and expanded training for farmers. Production of rice, the staple food, has been gradually increasing, and production comes close to meeting domestic requirements. This increase has resulted less from extension of cultivated area through the government's resettlement policy than from expanded use of irrigation, fertilizers, and pesticides and cultivation of high-yielding hybrid rice, especially insect-resistant hybrids. It also reflects the success of the government's "mass guidance" program, which provides technical assistance, easy credit terms, and marketing support through a system of village cooperatives. Additional support was provided by the National Logistics Board, which is responsible for price regulation and the national rice-rationing programs. Due to the rapid growth of the industrial sector, the agricultural contribution to GDP is expected to decline to 11.8% by 2003.

Rice is the primary staple crop; production in 2001 totaled 50,461,000 tons. Other staple crops in 1999 included cassava (15,422,000 tons), corn (9,139,000 tons), and sweet potato (1,928,000 tons). Vegetable production in 2000 included 1,366,410 tons of cabbages, 772,818 tons of shallots, and 454,815 tons of mustard greens. Sugar is the largest commercial crop, with production reaching 26,000,000 tons in 1999. About 1,564,000 tons of rubber were produced in 1999, as compared with about 648,400 in 1964. Faced with the prospect of declining yields, the government began an extensive replanting and rehabilitation program in 1981. In 2001/02, Indonesia was the world's fourth largest producer of coffee (after Brazil, Colombia, and Viet Nam); some 369,600 tons of coffee were grown that year, as compared with 188,900 tons in 1972 and an annual average of 120,400 tons during 1960–65. Indonesia is the world's second-largest producer of palm oil (after Malaysia); 9.1 million tons were produced in 2001/02. Palm kernels (2.68 million tons in 2001/02) and copra (1.36 million tons in 2001/02) are also important export crops.

### 23 ANIMAL HUSBANDRY

In 2001, the livestock population was 11,191,000 head of cattle, 12,456,000 goats, 7,294,000 sheep, 5,867,000 hogs and 430,000 horses. There are also about 2,287,000 buffalo in the country. The production of meat (about 1,742,000 tons in 2001) and cows' milk (505,000 tons) is secondary to the raising of draft animals for agricultural purposes and transportation. The government has established cattle-breeding stations and artificial-insemination centers to improve the stock and has been carrying on research to improve pastures. Technical and other assistance is also offered to chicken and duck farmers in an effort to increase protein supplies. There were an estimated 853.8 million chickens and 29.9 million ducks in 2001, when some 641,000 tons of eggs were produced. Local demand for animal products is constrained by low purchasing power, but increases in consumer income will raise demand for animal protein. Dairy and egg exports totaled \$115.2 million in 2001.

### 24 FISHING

As Indonesia is the world's largest archipelago (13,667 islands), fish is a readily-available source of animal protein for domestic consumption. In 2000, the total catch was 4,140,045 tons, ranking Indonesia sixth in the world. Fishing is more important than statistics indicate, because the catch of many part-time fishermen never enters trade channels. Commercial fishing is confined to a narrow band of inshore waters, especially off northern Java, but other fishing also takes place along the coast, as well as in the rivers, lakes, coastal swamps, artificial ponds,

and flooded rice fields. The government has stocked the inland waters, encouraged cooperatives to provide credit facilities, introduced improved fishing methods, provided for the use of motorized fishing boats and improved tackle, and built or rehabilitated piers. Fish and fish product exports had a value of \$1,584,454,000 in 2000.

### 25 FORESTRY

Forests represent a potentially vast source of wealth in Indonesia. Of the 105 million ha (259 million acres) of forests, nearly three-fourths are in Kalimantan and eastern Indonesia. The more accessible forest areas of Sumatra and Kalimantan furnish the commercially cut timber for domestic consumption and export. Indonesia has over 4,000 species of trees, including 120 types of hardwood suitable for commercial use. Timber estates produce fast growth species such as pine, eucalyptus, albizia, and acacia for the pulp and paper industry. Practically all forestlands belong to the state. In Java, excessive cutting has caused soil erosion, aggravated floods, created water shortages, and damaged some irrigation facilities. Replanting and rehabilitation of the Javanese forests and reforestation in the Outer Islands are promoted as part of the nation's "regreening program." Teak and other tropical hardwoods are the most valuable species, but there is hope of obtaining wood pulp from pine and bamboo and commercial timber from new plantings of fir and pine.

Indonesia is the largest producer of tropical hardwood plywood in the world. Export sales of processed wood in 2001 amounted to \$3.3 billion, representing 9.6% of all Indonesian exports. Production of sawn wood in 2000 totaled 2.4 million cu m (85 million cu ft); plywood, 7.2 million cu m (254 million cu ft); and particleboard, 213,000 cu m (7.5 million cu ft). About two-thirds of the timber output is exported. French, Japanese, US, and Philippine interests have large investments in the timber industry. Indonesia is the world's second largest producer of tropical hardwood logs and lumber, after Malaysia. Due to a hardwood log export ban enacted in 1985 to protect rapidly diminishing forests, Indonesia has exported no logs since then. Prohibitive export taxes imposed in 1990 have all but eliminated tropical hardwood exports, in order to conserve declining forest resources for production and export of higher value items such as plywood. However, an estimated 30 million cu m (1.1 billion cu ft) of illegal logging occurs annually, of which an estimated 10 million cu m (353 million cu ft) is illegally exported.

### 26 MINING

Indonesia was a leading world supplier of oil and gas, which comprised the main engine of growth. In addition, though, Indonesia supplied 30% of the world's tin (10.5% of known reserves), 11% of nickel, 6% of copper, and 5% of gold, and was a leading Southeast Asian producer of cement, bauxite, and nitrogen fertilizer. Mining and cement comprised the country's third-leading industry in 2002, and in 2000, Indonesia also produced hydraulic cement, dolomite, feldspar, granite, gypsum, marble, nitrogen, salt, quartz sand, silica stone, sulfur, and zeolite.

The economic recovery of 2000—GDP grew by 4.8%—was slow, but more broadly based than that of 1999, which was based mainly on consumption. The mining and quarrying sector increased by 2.3% in 2000, having declined by 2.4% in 1999. In 2000, total exports increased by 27.5%, to \$62 billion; the value of exports from the mining sector was \$3 billion—copper ore and coal accounted for 93%, bauxite, dimension stone, nickel ore, and tin were other major export commodities. In 1999, the value of mining exports was 11% of total exports, and the mining industry contributed \$1.5 billion to the economy.

Copper output (content in ore) was 1 million tons, up from 766,027 in 1999 and 529,121 in 1996. The Indonesian Environmental and Natural Resources Non-Governmental

Forum filed a lawsuit against PT Freeport Indonesia Co., the second-largest producer, for environmental mismanagement and misinformation in the Wanagon Basin, next to Freeport's Grasberg Copper Mine in Irian Jaya. In May 2000, a period of excess rainfall caused a slippage of the mine waste stockpile; four employees were unaccounted for. After the accident, the government imposed a restriction on ore processing; the mine was cleared to return to full capacity in December. After completing its first full year of operation, the Batu Hijau copper and gold mine (Sumbawa Island), with reserves of 4 million tons of copper and 332 tons of gold, was to receive a \$1 billion project fund financed through the Japanese, US, and German export banks. Copper production began at Tembagapura, Irian Jaya, in 1974.

Bauxite production was 1.55 million tons in 2000, 1.12 million in 1999, 809,000 in 1997, and 1.4 million tons in 1991. Indonesia possessed large deposits of high-grade bauxite, from mines in Kijang (Bintan Island) and Sumatra. Most of the output was exported to Japan; the remainder, to the US.

Tin mine output in 2000 was 51,629 tons. The chief deposits of tin were in Bangka, Belitung, and Singkep, islands off the east coast of Sumatra. Tin mining has, for several years, faced depleting resources, the decline of tin, community conflicts in several mining sites, and illegal mining and smuggling, the latter resulting in increased compensation to company contractors and high tin output from offshore mining. The existing resources of PT Koba Tin, which produced 11,000 tons of refined tin, had a mine life of eight years. The 65%-state-owned tin producer, PT Tambang Timah, which had a capacity of 60,000 tons per year, was listed on the London and Jakarta stock exchanges. Tambang expected that tin production would decline in 2001 and was exploring opportunities to mine tin in Burma, Cambodia, Malaysia, and Vietnam, and to explore for diamond and gold in Kalimantan and North Sumatra.

Gold mine output was 124,596 kg, up from 86,927 in 1997. Because of political uncertainty and illegal mining, Aurora Gold Ltd., of Australia, the largest gold producer in Indonesia, with annual capacity of 60 tons, decided to sell its 85% share in the Toka Tindung project, North Sulawesi, where it had discovered an indicated and inferred resource of 15.4 million tons of ore averaging 3 grams per ton of gold and 8 grams per ton of silver. Another Aurora prospect, Talawaan, had been heavily contaminated with mercury used by illegal miners. PT Newmont Pacific Nusantara decided to close its Greenfield explorations in Indonesia because of confusion about legal mining regulation and investment policies; it would keep its projects in North Sulawesi and West Nusa Tenggara operating. PT Newmont Minahasa Raya's Minahasa mine, on the northern tip of North Sulawesi, was forced to close several times in 2000 because of a continuing dispute with ex-landowners and a strike by mining contractors. In addition, the local government attempted to shut down the mine because of a dispute dealing with overburden tax compensation; the matter was settled out of court. Because of depletion of ore resources, Newmont Minahasa planned to cease operations at Minahasa in 2003. The company would not develop the nearby Lobongan gold deposit because of excessive illegal mining. Iriana Resources Corp., of Canada, announced that its Mafi gold exploration (Irian Jaya) had begun in 2000; initial assay samples contained 26.7 grams per ton of gold, 445 grams per ton of silver, and 10.4% lead, with possible occurrences of antimony and zinc in the area. Responding to demands of residents of Java and West Kalimantan, the Ministry of Energy and Mineral Resources (MEMR) ordered illegal gold miners to stop using mercury in their gold-processing activities, which had caused mercury levels in West Kalimantan rivers to be 10 times greater than the maximum allowed.

Nickel mine output was 98,200 tons in 2000 and 74,063 in 1998. Nickel was produced in Soroako (North Sulawesi),

Pomalaa (South Sulawesi), and the Maluku and Gebe islands, with some of the largest reserves in the world. Higher nickel prices and security concerns have hindered production. PT Weda Bay Nickel announced that indicated and inferred nickel and cobalt resources in Halmahera Island increased to 202 million tons. The inferred resource of the Santa Monica deposit was estimated to be 75.8 million tons containing 1.38% nickel and 0.12% cobalt, and that of the Big Kahuna deposit was estimated to be 40.4 million tons at a grade of 1.32% nickel and 0.08% cobalt.

Iron ore was found in sizable quantities, but was commercially exploited only in central Java. There were fair to good reserves of gold, silver, iodine, diamond (industrial and gem quality), and phosphate rock, and considerable supplies of limestone, asphalt, bentonite, fireclay, and kaolin powder. Herald Resources Ltd., of Australia, announced the discovery of significant lead and zinc resources in the Dairi area, Bukit Barisan Highland; the exploration concentrated in the Anjing Hitam area, in the southeastern part of the Sopokomil/Bongkaras domal structure, and it was estimated that the deposit contained an indicated resource of 7.5 million tons of lead and zinc at 10.3% lead, 16.7% zinc, and 14 grams per ton of silver and an inferred resource of 2.5 million tons at 6.8% lead and 11.3% zinc. Despite some reserves, no manganese was mined in 1999 and 2000.

Concerns about political uncertainties continued to deter foreign investment, creating an inhospitable environment for investment and operations. Expansion plans were on hold until the economic climate improved. In 1999, the Indonesian parliament passed two laws, to be implemented in 2001—on regional political autonomy and fiscal decentralization—whose impact on investment rules and procedures remained unclear. Mining companies were confused about the connection between the two laws on general mining. The major problem was contradictions between the centralistic 1967 law on mining, and the decentralistic law of 1999. In 2001, the 1967 law would no longer have legal strength to protect mining operations, particularly on new investments. Also, another 1999 law, on forestry, prohibited open-cast mining, which would protect forests in 68% of the area of Irian Jaya potentially available for mining exploration; 58%, in Sumatra; 50%, in Maluku; and 39%, in Sulawesi. Many mining companies postponed their expansion and new investment projects until the government could provide legal protection that was clear and unequivocal. In 2000, mining companies that operated under contracts of work (COWs) spent \$550 million, which was half the amount expended in 1999. In 2000, 30 mining contractors, 14 producing, and 16 exploration companies postponed their investment programs, and 18 COWs were terminated. MEMR and related departments drafted a new mining law/regulation to replace the 1967 law with an updated regulatory framework that recognized the changing role of government, especially with regard to implementation of regional autonomy and fiscal decentralization and further safeguard of the natural environment.

Indonesia's constitution places all natural resources in the soil and waters under the jurisdiction of the state. In 1999, the government increased taxes and royalties that created a less competitive investment environment. Restructuring and privatization of state-owned industries has been very slow, and new investment was still low. As the world's fourth most populous country, Indonesia could become one of the largest steel-consuming countries. However, its volatile political situation and uncertain economic climate hampered development. The state-owned general mining company, PT Aneka Tambang, has gone public on the Jakarta Stock Exchange.

## 27 ENERGY AND POWER

Indonesia ranks among the world's leading petroleum-producing countries. Production in 1990–2000 averaged between 1.3 and 1.4 million barrels per day, up from the 1.33 million barrels produced in 1988. Known reserves in 2002 were put at five billion barrels, and since most of the potential sources have not been surveyed, resources may be much larger. Sumatra, the richest oil area, produces about 70% of Indonesian oil. Kalimantan is the second-leading producer; Java and Madura have a scattering of smaller producing wells. Lesser amounts are also produced in Irian Jaya.

Before 1965, nearly 90% of Indonesia's petroleum was extracted by foreign companies and slightly more than 10% by state-owned companies. In March 1965, the government took over all foreign-owned oil companies, but offered them the option of continuing operations under Indonesian control and supervision. A public-sector enterprise, Pertamina, was set up to represent the government in all matters relating to the petroleum industry. By the mid-1970s, Pertamina had assumed a dominant role in oil exploration and production and in such related fields as petrochemicals, fertilizers, and natural gas. During the 1980s, Pertamina spent \$3 billion per year on high-risk oil development projects, which helped to maintain a 20-year reserve level of oil and a 40-year reserve level of natural gas. In May 1993, reserves estimated at 225 million barrels were discovered (the largest find in Asia in a decade) at the Widuri field. Three major new projects expected to become operational before 2004 are the West Seno field offshore from East Kalimantan (60,000 barrels per day), the Belanak project in West Natuna (100,000 barrels per day), and the Banyu Urip field in Java.

Natural gas production increased rapidly in the 1970s and 1980s, with output totaling 63.4 billion cu m by 1998, as compared with 19.9 billion cu m in 1982. Part of production goes for industrial and domestic use, but large amounts are exported in the form of liquefied natural gas (LNG). Indonesia is the world's largest exporter of LNG; its major customers are Japan, South Korea, and Taiwan.

Power facilities are overtaxed, despite heavy government investment in electrical installations. Total installed capacity in 2001 was 20,822,000 kW, as compared with 10,830,000 kW in 1988. Production in 2000 totaled 87,600 million kWh (up from 2,932 kWh in 1973); of that amount, 81% was from fossil fuels, 14% from hydropower, and 5% from other sources. Electricity consumption in 2000 was 86.1 billion kWh. The nation's first geothermal electric power station was inaugurated in 1974 in West Java, and a 750 MW hydroelectric plant was completed there in 1985. In 1995, P.T. Perusahaan Listrik Negara (PLN), the state-owned electric company, projected that electricity demand will rise by 14% annually, with a generating capacity at 25,000–30,000 million kW needed by 2010.

## 28 INDUSTRY

Indonesia's industrial sector has not fully recovered from the blows of the Asian financial crises in 1997–1998, when the fall of the rupiah, from about 2,600 down to 17,000 to one US dollar, left 75% to 80% of its businesses technically bankrupt. Recovery to pre-crisis levels has been hindered by both internal and external disturbances, particularly after 2001, when the effects of the global slowdown were aggravated by intensifying political violence and uncertainty climaxing in the 12 October 2002 bombings in the Bali resort of Kuta Beach. The Indonesian government's Industrial Production Index showed a year on year (*yoy*) growth throughout 2000, peaking at a 14% increase in the first quarter of 2001. Year on year increases declined in second and third quarters, and then turned negative in the fourth quarter, reaching a -13% (*yoy*) decline in the second quarter of 2002. Smaller enterprises, reflected in the government's figures for non-

oil manufacturing, have done better, maintaining a positive *yoy* growth rate, although one that has dropped steadily from a 7.5% (*yoy*) improvement in the first quarter of 2000 to less than 3% (*yoy*) in the second quarter of 2001. Overall, the US Central Intelligence Agency (CIA) estimates that the industrial production growth rate in 2001 was 3.1%. The leading industries by value are petroleum and natural gas; textiles, apparel and footwear; mining; cement; chemical fertilizers; plywood; rubber; food and tourism.

Industrial expansion is given a high priority in development plans. Labor-intensive industries are stressed, together with industries producing consumer items for domestic consumption and export and products accelerating agricultural development. The government encourages industrial investors, particularly those who plan to export, to locate in one of its eight bonded zones (BZs), the Batam Industrial Park or free trade zone (FTZ) or in an export-processing zone (EPZ). The Batam Industrial Park, located on Batam Island in the Malacca Strait 20 km (12.5 mi) south of Jakarta, was designed to attract investment away from crowded Singapore. In the period January to November 2002, 80 foreign projects were licensed in Batam, up from 59 during the same period in 2001. In November 2002, however, Sony Electronics, Indonesia's largest industrial employer, announced that it would be closing its Indonesian operations in March 2003 as part of a plan to downsize from 70 plants to 54 worldwide. Outside of Batam, foreign investment approvals in 2002 dropped 23% compared to 2001 (from 1333 to 1028), and 35.4% in value (from about \$15 billion to \$9.7 billion). Approvals, which the Indonesian government reports regularly, are indicators of foreign investor confidence but they are not the same as the actual level of investment, which is much lower. Domestic investment projects also declined in both number and value in 2002 compared to 2001, down 31.5% to 181 projects, and down 57% to Rp25,262 billion (about \$11.2 billion in purchasing power parity terms). It is also estimated that at least 20 foreign businesses have left in the first three quarters of 2002 due to local taxes and other regulations that localities have or might impose as they were empowered to do under tax reforms introduced in January 2001. Political uncertainties, insecurities about the new decentralized tax regime and worsening labor relations were cited as the main factors holding back foreign investment.

Industries which process Indonesia's abundance of natural resources include those based on petroleum, wood, sugar, rubber, tea, coconuts, palm kernels, sisal, kapok, rice, and cassava. Manufactured products include consumer goods such as tires and tubes, rubber shoes, radios, batteries, soap, margarine, cigarettes, light bulbs, textiles, glass, paper, tractors, and trucks. Other industries established in recent decades include the Krakatau Steel Industrial Estate at Cilegon (in northwest Java), plywood factories, cement works, spinning mills, knitting plants, iron works, copper and other foundries, a ceramics plant, a leather-goods plant, and a glass factory, and the manufacture of petrochemicals and urea fertilizers, as well as, most ambitiously, facilities for automobile assembly, shipbuilding and aircraft manufacture. The Asian financial crisis doomed ambitions for the mass production of passenger airplanes, as well as a "national car," the Timor. Indonesia's National Car Project was established in February 1996 as an extension of a 1993 program that gave tariff and tax incentives for using locally produced parts in automobiles, and which sought to market the Timor as the "national car," although in fact it was made mostly in Korea. Nepotism and corruption were also charged against the project as Pres. Suharto put his youngest son, Huotomo or "Tommy," at its head. The Asian financial crisis of 1997–98 swept most vestiges of the project away, aided by a WTO ruling calling for the elimination of the program's special tax, customs, and credit privileges issued by a WTO panel called for on the eve of the



crisis by Japan (17 April 1997), the European Union (12 May 1997), and the United States (12 June 1997), and issued in April 1998. In the meantime, the immediate elimination of the National Car Program's privileges had been made a conditional of the Indonesia's IMF bailout program by the Memorandum on Economic and Financial Policies (MEFP) of 15 January 1998.

From World War II until the 1990s, overall industrial growth was small with agriculture the dominant sector of the Indonesian economy. However, in the 1990s, industry and services took over as the dominant sectors, respectively contributing about 41% and 42% of the GDP, with agriculture falling to 17%. Although the government has put an emphasis on developing labor-intensive industries, industry accounts for only for 16% of employment, compared to a 45% share for agriculture and 39% for services. In 1991, textiles were the key industrial export, accounting for 47% of the total. In 2001 textiles and garments were technically still the leading industrial export, but only accounted for 13.6% of total export earnings. The value of textiles exports was down 15% from 2000, due mainly to the global economic slowdown, and was predicted to drop another 10% in 2002. Textiles remains characterized by small producers, with more than 1200 registered textile companies in Indonesia, employing more than a million workers.

The petroleum refining industry has not grown significantly over the last decade. In 1992, Indonesia had six refineries, all operated by Pertamina, the state oil company. Production of refined products was 572.8 million barrels, which is 38% higher than the annual production from Indonesia's now eight state-owned refineries in 2001, operating at 96% capacity. Statistics on refined petroleum products consumption are questionable because of considerable smuggling out of Indonesia to escape its price controls. Oil products subsidies are scheduled to be phased out by 2004. The government has issued several licenses to foreign investors to build refineries, but as of 2002, only one has reached the construction phase. Coal production reached 70 million tons per year by 1999. In 2001 production was 92.5 million tons with 65.3 million tons exported, and was on track for production of over 100 million tons. and exports of 70 million tons. in 2002. The regulation and licensing of the coal industry in Indonesia, which currently includes 33 producing companies, was decentralized in legislation that went into effect in 2001.

The steel industry in Indonesia basically consists of one large integrated mill, the PT Krakatau Steel complex plus numerous mini mills that use scrap steel as their raw material input. In 1992 steel billet production was 560,000 tons. In 2000, total steel billet capacity was 2.34 million tons across 11 companies, but the plants were only running at 60% capacity. In the Asian financial crisis, Indonesia's total steel production dropped from 7.3 million tons in 1997 to 2.7 million tons in 1998 as domestic demand collapsed. The industry was able to survive through exports, although facing stiff competition from its regional neighbors, Eastern Europe and Latin America, particularly. What recovery had been achieved in 2000, however, was cut off abruptly in 2001 when the United States, its biggest customer, placed dumping duties on Indonesian steel.

Indonesia produces nitrogen, phosphate and potash fertilizers, but the strongest prospects are for the urea industry because of Indonesia's natural gas deposits. In 2001, urea production was 6.954 million tons, above the total fertilizer production for 1992, which was 6.5 million tons. Prospects are good for an export market in urea, but in 2002 most fertilizer output was for domestic consumption, and plants, many of them state-owned, were running at near 100% capacity, and fertilizer formed less than 1% of exports.

Wood and wood products have traditionally been Indonesia's second-largest industrial export group, accounting for 11% or 12% of total export value, though electronic some times claims a

larger share. The robust growth in the output of wood and wood products, from 4 million cm in 1967 to an estimated 60 to 70 million cm in 2001, is the cause of international controversy because of the rapid deforestation involved. Global Forest Watch estimates that forest cover has declined from 162 million hectares to 98 million hectares (39.5%) from 1995 to 2000. Laws are in place to curb the rate of exploitation, but it is estimated that over half of the logging done is illegally. In 2001 consumption of plywood was 13 million cu m and the total consumption of logs was 26 million cu m. Wood products, pulp, paper, and paper products, are Indonesia's second-largest sector of industrial exports. The chemical industry experienced an annual growth rate of 13% prior to 1993; and after 1997, the depreciation of the currency encouraged chemical production for the export market. In the consumer goods manufacturing sector, activities are run primarily by private enterprise. All oil and natural gas processing have historically been controlled by government enterprises, as have been other major heavy industries, such as basic metals, cement, paper products, fertilizer, and transport equipment. After the recession in 1998, the government proposed liberalizing heavy industry. Of the 168 parastatals, 140 were scheduled for privatization.

During the 1990s, Indonesia's eight oil refineries, all owned by the state company Pertamina, produced about one million barrels of refined petroleum per day, contributing 9% of the GDP in 1999. In 1997, the fuel sector contributed about 20% to Indonesia's foreign exchange earnings and a waning amount of government tax revenues. Prior to 1997, these sectors accounted for nearly 80% of exports and 70% of government revenues. Natural gas production has steadily increased, and may take over from petroleum as a major source of export revenue. Natural gas proven reserves will last 40 years at current production rates, which reached 180,000 barrels per day in 1999.

In July 1992 non-tariff barriers were reduced and key industries were deregulated to allow free importation of essential manufacturing inputs. There is a shortage of skilled technical personnel to support high-tech industries; most technology has been imported through joint ventures. The agency for Strategic Industries (BPIS), a state-owned holding company including aircraft, telecommunications and high-technology industries, formed a joint venture with a major foreign multinational technology corporation to promote technology transfer to Indonesia. Most industrial enterprises were negatively affected by the 1998 recession, with an overall decline of at least 15%. The Indonesian Bank Restructuring Agency (IBRA) took over the majority of Indonesia's non-performing industrial assets in 2000 with plans to sell, including: cement factories, mining facilities, manufacturing plants, food processing firms, plywood production plants, vehicle assembly lines, chemical plants, property, and agribusinesses.

## 29 SCIENCE AND TECHNOLOGY

Like many developing nations, Indonesia has a shortage of scientific personnel and engineers. The Indonesian Institute of Sciences, a government agency established in 1967, has centers for research and development in biology; oceanology; geotechnology; applied physics and applied chemistry; metallurgy; limnology; biotechnology; electricity and electrical engineering; information and computer sciences; telecommunication, strategic electronics, component and material sciences; and calibration, instrumentation, and metrology. The country has 45 other research institutes concerned with agriculture and veterinary science, medicine, the natural sciences, and technology. Courses in basic and applied sciences are offered at 53 state and private universities. At a more basic level, Agricultural Training Center programs provide workshops throughout Indonesia to acquaint rural workers with the use of plumbing and automotive equipment, small engines, electric

tools, and chain saws, and to familiarize farmers with the use of modern hybrid seeds, pesticides, and fertilizers. In 1987–97, total expenditures for research and development amounted to 0.07% of GDP; 182 scientists and engineers per million population were engaged in research and development. During the same period, science and engineering students accounted for 39% of all college and university students. In 1998, high-tech exports were valued at \$2.1 billion and accounted for 10% of manufactured exports.

### 30 DOMESTIC TRADE

Jakarta, the capital and chief commercial city, is Indonesia's main distribution center. The principal business houses, shipping and transportation firms, and service agencies have their main offices there and branches in other cities. Since the end of World War II, the government had sought to channel trade and business activities into Indonesian hands by a policy of granting special privileges to Indonesian firms—including export license monopolies, sole agency rights, and exclusive licenses to import and sell specific goods—and of making government purchases through Indonesians. In 1998, however, most of these restrictions of foreign retail investment were removed. Foreign investment is also allowed in wholesale and distribution activities; however, in many cases, the company must be represented locally by an Indonesian firm or national. Most trade is conducted through small and medium-sized importers who specialize in specific product lines. Direct marketing has become popular for a variety of goods and services.

Commercial business hours vary, but are usually 7:30AM to 4 PM. Retail stores and some other businesses are open from 8 AM to 4 PM. Some shops are open from 9 AM to 10 PM, Monday through Saturday. Offices and most businesses close at 11 AM on Fridays in observance of Muslim sabbath. Local banks transact business from 8 AM to 1 PM and 2 to 3 PM, Monday through Friday, and 8 to 11 AM on Saturdays. Newspapers, magazines, posters, and billboards are the most popular advertising media. English is widely used in business and government. There is little advertising by mail, and none at all on radio or television. The government restricts advertising space in newspapers to 35% of the paper's content.

### 31 FOREIGN TRADE

Trade balances since World War II have invariably been favorable. Trade liberalization began in 1982 as an effort to increase non-oil exports. By 1987, non-oil exports matched revenue from oil and gas exports for the first time. Imports, which are closely regulated in government efforts to restrain growth of merchandise imports, consist mainly of machinery and raw materials, indicating a reliance on imports to support industry. Discrepancies in trade figures are common and reflect widespread smuggling and corruption of customs and government officials. The late 1990s revealed shrinking exports of plywood, and slow growth in exports of garments and textiles. Emerging exports such as footwear and consumer electronics also showed weak growth. However, rising world prices for oil (except in 1997 and 1998), rubber, and other commodities kept these exports high. The surge in non-oil imports owes much to the demand for consumer goods. In 1998, Indonesia was the world's largest rice importer due to drought, and imported little else. Economic, political, and social crisis was accompanied by a small leap in exports due to currency depreciation, but earnings in the non-oil sector remained low nonetheless.

In the 1970s, Japan became Indonesia's dominant trade partner taking over 41% of Indonesia's exports (mainly petroleum) and supplying over 25% of its imports. Although Japan remains the dominant trade partner, other trade partners—including the US, Singapore, and China—have become important to the economy. Trade with the Netherlands, which was of primary importance in colonial times when Indonesia was known

as the Dutch East Indies, has decreased since 1957. With the creation in 1992 of the ASEAN Free Trade Area (AFTA), trade within the region has increased.

Indonesia puts out a large amount of gas (10.6% of country exports, 8.0% of world exports) and crude petroleum (9.8%) into its commodities export market. Other major exports include apparel (7.7%), textiles (5.7%), paper products (3.7%), plywood (3.2%), footwear (2.6%), and copper ore (2.6%).

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

Consumer goods	2.7%
Food	7.5%
Fuels	18.2%
Industrial supplies	43.1%
Machinery	19.4%
Transportation	9.1%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	14,415	5,397	9,018
United States	8,489	3,393	5,096
Singapore	6,562	3,789	2,773
China (inc. Hong Kong)	4,322	2,364	1,958
Korea	4,318	2,083	2,235
Malaysia	1,972	1,129	843
Netherlands	1,837	434	1,403
Australia	1,519	1,694	-175
United Kingdom	1,507	557	950
Germany	1,443	1,245	198

### 32 BALANCE OF PAYMENTS

Indonesia had persistent balance-of-payments difficulties from the time of its independence. Typically, surpluses on merchandise trade were achieved by restricting imports, but these surpluses did not provide sufficient exchange for debt repayments or for other invisibles, such as profit remittances on foreign investment and interest payments on government loans from abroad. Indonesia's payments position brightened considerably in the late 1970s as a result of a rapid increase in oil prices mandated by OPEC. However, expansion of the non-oil export industries failed to keep pace with burgeoning import requirements for some consumer goods and machinery, equipment, and spare parts for development programs. The current account deficit averaged -2% of GDP between 1992 and 1997, but accrued a surplus of over 4% of GDP in 1998 due to currency devaluation and a cut in imports of one-third. Real GDP growth was expected to rise in 2004, as demand for exports of goods and services increased. The current account was forecast to remain in surplus in 2003/04, but to decline as a percentage of GDP. Indonesia's total external debt stood at approximately \$135 billion in 2001; a loan with the IMF was due to expire in December 2003.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Indonesia's exports was \$56.5 billion while imports totaled \$38.1 billion resulting in a trade surplus of \$18.4 billion.

The International Monetary Fund (IMF) reports that in 2001 Indonesia had exports of goods totaling \$57.4 billion and imports totaling \$34.7 billion. The services credit totaled \$5.5 billion and debit \$15.9 billion. The following table summarizes Indonesia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>6,899</b>
Balance on goods	22,695
Balance on services	-10,380
Balance on income	-6,936
Current transfers	1,520
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-7,616</b>
Direct investment abroad	...
Direct investment in Indonesia	-3,278
Portfolio investment assets	...
Portfolio investment liabilities	-245
Other investment assets	-125
Other investment liabilities	-3,968
<b>Net Errors and Omissions</b>	<b>702</b>
<b>Reserves and Related Items</b>	<b>15</b>

### 33 BANKING AND SECURITIES

The government's Bank Negara Indonesia (BNI) was established in 1953 as the successor to the Java Bank. In 1965, all state banks with the exception of State Trading Bank were incorporated into the BNI as separate units. In 1969, this policy was reversed, and the state banks were again reorganized as individual banks. In 1967, as part of the new regime's policy of encouraging foreign investment, foreign banks were permitted to operate in Indonesia, on condition that they invested at least \$1 million, of which at least \$500,000 had to be brought into the country. The law also provided that foreign banks were to appoint Indonesian banks as their correspondents for any dealings outside Jakarta. The Indonesian banking system transformed after 1980, through a process of gradual but steady reform, which culminated in the 1992 banking law. Joint-ventures were allowed with Indonesian partners. The partial liberalization of the banking industry had a dramatic impact. One result was a sharp deterioration of the banking system's asset quality. The precipitous growth in bank credits threatened to undermine economic stability by stimulating a sharp increase in import demand and inflationary pressures. Responding to this threat, the government initiated an abrupt tightening of monetary policy during the 1990s. From 1992 until 1997, the rupiah was managed in relation to the dollar, but in 1997, the currency was allowed to float because of Asian currency depreciation. Unfortunately, political and social unrest resulted in a highly volatile currency. The 1998 economic failure brought about a major restructuring of the banking system which was literally bankrupted. State-owned banks held \$80 billion in corporate debts and more than two-thirds of their loans were non-performing in 1999. The Bank of Indonesia alone faced a deficit of over \$4.1 billion in 2000.

Bank Indonesia, as the central bank, is responsible for the administration and regulation of the four state banks and other banking operations. Among the state banks, Bank Rakjat Indonesia specializes in credits to agricultural cooperative societies but also provides fishing and rural credit in general. Bank Tabungan Negara promotes savings among the general public. Bank Negara Indonesia (BNI) provides funding for industry. After the financial crash in 1999, four of the state banks were merged into the new Bank Mandiri; including the Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor, and BAPINDO. Bank Bumi Daya provided credits to estates and forestry operations; Bank Dagang Negara provided credits to the mining sector; and Bank Ekspor Impor Indonesia specialized in credits for the production, processing, and marketing of export products, and the Development Bank of Indonesia (Bank Pembangunan Indonesia-or BAPINDO) provided financial assistance to government enterprises and approved new industries. There were 128 private domestic commercial banks in 1998; 38 of them were liquidated in 1999, eight of them were taken over by the government, eight of them were able to function with government aid, and 71 private banks were able to

continue without assistance. Two joint-venture banks closed, out of a total of 32 jointly-owned banks. Foreign investment in the banking system is now allowed up to 99%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$16.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$81.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 15.03%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 17.62%.

Indonesia's first stock exchange was established in December 1912 in Jakarta, although both this and two subsequent exchanges established in Surabaya and Semarang in 1925 were shut down during the Japanese occupation. An attempt to revive the capital markets in the early 1950s proved futile, and it was not until August 1977 that the Jakarta Stock Exchange (JSE) was successfully relaunched amid a comprehensive set of institutional reforms that resulted in the establishment of the Capital Market Executive Agency (Badan Pelaksana Pasar Modal-BAPEPAM) to manage the market, as well as a state-owned securities firm, Danareksa, to facilitate the flotation of shares. After sinking to 276 in the fall of 1998, the JSI rose from just below 500 in early 1999 to above 700 in mid-1999, but was back down to 508 in mid-2000 and below 400 by 2001.

### 34 INSURANCE

The insurance and reinsurance industry is governed by an insurance law issued in February 1992 that allows foreign ownership of insurance companies. The industry is regulated by the Ministry of Finance as well as the Insurance Council of Indonesia. The growth of the industry over the past decade is reflected in an impressive increase in many of the industry's financial variables, including assets, gross premiums, and investments. third-party motor liability insurance, workers' compensation, and passenger accident insurance are compulsory. Workers' compensation must be insured with the Government company, ASTEK. Employees also have no right to sue. A 1998 Financial Services Agreement with the WTO equalized capital requirements for both domestic and foreign insurance firms.

### 35 PUBLIC FINANCE

Government expenditures (including capital expenditures) have outrun public income by a considerable margin each year since 1952, and this cash deficit has been met by foreign aid receipts. Since 1985, however, Indonesia has discouraged public sector and monetary growth, resulting in an overall budgetary surplus in 1991/92, despite a significant drop in oil revenues from falling prices. The East Asian financial crisis of 1998 hit Indonesia hard. In 1998, the government deficit reached over 3% of GDP, partially because of subsidized rice imports and investment in the failing banking sector. As of 2002, the economy was just beginning to recover to pre-1997 levels, and the growth rate was not considered high enough to achieve full employment anytime soon. At the end of 2001, Indonesia's external debt was the equivalent of 20% of total GDP.

The US Central Intelligence Agency (CIA) estimates that in 2000 Indonesia's central government took in revenues of approximately \$26 billion and had expenditures of \$30 billion. Overall, the government registered a deficit of approximately \$4 billion. External debt totaled \$135 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%	26,000
Tax revenue	63.9%	16,610
Non-tax revenue	36.1%	9,383
Capital revenue	<0.1%	3
Grants	<0.1%	4
EXPENDITURES	100.0%	30,000
General public services	4.6%	1,388
Defense	3.0%	892
Public order and safety	2.1%	618
Education	3.7%	1,122
Health	1.3%	380
Social security	8.6%	2,571
Housing and community amenities	1.3%	395
Recreation, cultural, and religious affairs	0.6%	189
Economic affairs and services	3.6%	1,065
Other expenditures	71.3%	21,381

### 36 TAXATION

Taxes on oil companies are the largest single source of central government income. Under the general corporation rate, corporate income up to Rp25 million is taxed at 10%, income between Rp25 million and Rp50 million is taxed at 15%, and income exceeding Rp50 million is taxed at 30%. A 20% withholding tax is payable on branch profits after corporate tax. However, concessional rates are available for tax treaty countries. Special corporation taxes, with generous depreciation and other deductions from taxable income, cover petroleum, mining, shipping, airline, and insurance companies. Individual incomes are taxed at the same rate as those of corporations. An eight-year carried-forward loss for investment in eastern Indonesia is allowed. Indirect taxes include a VAT, which will replace the sales tax after 2000, and excise taxes on luxury goods.

### 37 CUSTOMS AND DUTIES

Indonesia has, in the past few years, made attempts to liberalize its foreign trade, but unanticipated problems arose preventing substantial progress. Most tariffs are designed to stimulate exports and to protect infant domestic industries. However, the tariff system is burdensome and time consuming and evasion is widespread. Exempt from import duties are raw materials and manufactured items imported for use in government-backed or approved labor-intensive enterprises. Duties on imports from ASEAN member countries were lowered to 20% in 1978. Two years later, duties on 384 products—including cement, sarongs, engine pistons, cameras, and telecommunications equipment—were reduced or abandoned, regardless of origin. Many items may only be imported by government-approved importers and there are quotas for certain non-durable goods. A three-tiered tariff structure, with rates of 0%, 5%, or 10% applied to various commodities, has been implemented to satisfy Indonesia's IMF commitments. An import sales tax is imposed on imports at point of entry (except for those goods considered essential by the government) at rates of 5–30%. Distilled spirits are dutied at a rate of 170% and vehicle taxes range from 5% for trucks up to 75% for some sedans. Indonesia has also committed to the ASEAN Free Trade Agreement and its Common Effective Preferential Tariff (CEPT), and is further liberalizing its trade in order to meet the provisions of that compact. There is a free trade zone on Batam Island that is exempt from all import and export taxes; a free trade facility near Tanjung Priok, the country's main port; a bonded warehouse in Cakung, near Jakarta; and a number of other export processing zones.

### 38 FOREIGN INVESTMENT

Foreign investments have played a key role in the Indonesian economy since the turn of the 20th century. The Dutch were for decades the principal foreign investors in Indonesia, involving themselves heavily in the production of sugar, cinchona, coffee,

tobacco, rubber, and oil. UK investments were in oil, rubber, and manufacturing. Rubber estates, particularly those in northern Sumatra, were operated by Belgian, UK, Danish, French, Norwegian, Swiss, and US individuals and companies. In the dispute with the Netherlands over Irian Jaya, the Indonesian government took over Dutch enterprises in the country and seized Dutch assets. Although Indonesians recognized that foreign capital was needed to develop their economy, government policies were ambiguous and hesitant throughout the 1950s and early 1960s. The foreign investment law of 1958 attempted to provide certain guarantees to foreign investors and to establish safeguards for Indonesian interests. At the same time, the government guaranteed some foreign-owned industrial enterprises that they would not be expropriated by the state or nationalized for a maximum period of 20 or, in the case of large agricultural enterprises, 30 years. In November 1964, the government began to reverse this policy by nationalizing all British-owned commercial enterprises and placing them under direct Indonesian management and control. A decree of 25 February 1965 nationalized all US-owned rubber plantations in northern Sumatra, and another decree of 19 March placed three oil companies—two of them US companies—under the supervision and control of the government. Finally, on 24 April 1965, President Sukarno ordered the seizure of all remaining foreign property in Indonesia. This policy was again reversed after the ouster of Sukarno.

During 1967–70, the confiscated estates were gradually returned to their former owners (except in cases where the owner opted to accept compensation). The Foreign Capital Investment Law of 1967 governed foreign direct investment. The overall flow of private investments from overseas sources increased during the early 1970s, in response both to liberal terms offered under the Suharto government and to favorable world markets for Indonesian oil and other primary products. The annual flow of foreign investment funds approved by the government increased from \$333 million in 1972 to \$521 million in 1973 and to \$1,050 million in 1974. Some 65 US firms invested more than \$1 billion in petroleum enterprises during 1967–74, accounting for about 90% of the country's total production; in 1975 alone, an additional \$1.2 billion was spent in the oil sector by US interests. During 1967–85, Japanese investments led all others in nonoil sectors, totaling \$3.9 billion; US investors were second, supplying \$1.4 billion. In all, between 1967 and 1980, a total of \$8 billion was invested by foreign companies, of which \$6.6 billion was in the petroleum sector. Between 1982 and 1985, direct foreign investment averaged \$242.3 million annually. Since 1973, all foreign investment has been channeled through the Investment Coordinating Board (BKPM), and Indonesian partners were mandated for all foreign concerns established after 1974. Among the incentives for investment approved in 1986 were regulations allowing foreign investment in more industries (arms production is still prohibited) and granting foreign partners in joint ventures the right to distribute the products themselves. The Negative Investment List, 1989 and as amended in 2000, specifies the business areas that are closed to, or impose limitations on, foreign investors.

Between 1967 and 1992, more than 1,590 manufacturing projects involving \$59 billion in foreign investment were approved by the BKPM. Japan was a major investor accounting for 21% of the total, along with Hong Kong (9%), and Taiwan (7%). Foreign investment in manufacturing in Indonesia has been facilitated by the rising cost of labor and inputs in other Asian countries, incentives offered by Indonesia, easing of restrictions, and the streamlining of investment procedures. In 1993 new regulations on the requirements for share ownership in companies invested with foreign capital amended the 1967 Foreign Capital Investment Law, as well as streamlining the investment approval process, and reducing import tariffs on

various goods. A new deregulation package approved in June 1994 further increased incentives for foreign investment by allowing 5% to 51% foreign ownership in infrastructure (harbors, electricity, telecommunications, shipping airlines, railways, and water supply). New foreign investment approvals for 1992 to 1998 were estimated at a total of \$160 billion. From 1967 to 1998, Japan received approval for investments in Indonesia totaling approximately \$35 billion; the United Kingdom, \$24 billion; Singapore, \$18 billion; and Hong Kong, \$14 billion. In 1998 and 1999, new regulations paved the way for increased foreign investment; including concessions to foreign interests in distribution and the financial sector, tax concessions, and simplification of the licensing process. Sectors that remain closed to foreign investment include freshwater fishing, forestry, public transport, broadcasting and film, and medical clinics. More than one-third of the investment since 1967 has been in the chemicals industry, followed by mining, and natural gas.

### 3<sup>9</sup>ECONOMIC DEVELOPMENT

From the late 1960s through the mid-1980s, the Suharto government focused its efforts on financial stabilization, relying heavily on advice and assistance from multilateral aid donors. The results were mixed. The fiscal crisis threatened by the accumulated debts of the Sukarno years was averted through debt rescheduling and improved economic management; nevertheless, the depth of Indonesia's continuing reliance on foreign aid remained apparent through the mid-1980s. Efforts to develop capital-intensive import-substitution industries afforded only marginal benefits to the vast majority of Indonesians. Public expenditures on the first five-year plan (1956–60) included 25% for mining and manufacturing, 25% for transport and communications, 15% for power projects, and 35% for all other categories. A new eight-year development plan was launched in January 1961. Funds were allocated for key "A" projects; including 25% for transport and communications, 22% for industry, 13% for special projects including the military, 12% for clothing, and 11% for food. Eight "B" projects (petroleum, rubber, tin, and forestry) were to supply the financing for the "A" projects. Because of the lack of foreign financing, upon which most of the "B" projects depended, all "A" and some "B" projects were suspended in November 1964. For the period 1965–68, economic rehabilitation took precedence over development, and all official projects were evaluated on purely economic lines. A subsequent plan (1969–74) placed emphasis on the development of agriculture. Aid to industries was encouraged for activities that support agricultural development, such as the production of fertilizers, cement, agricultural equipment, and machinery for processing agricultural products. Assistance was also given to such import-substitution industries as textiles, paper, rubber tires, and housing materials. The 1975–79 plan represented a shift from stabilizing policies to stepped-up development. The plan placed considerable focus on the rural economy, stressing labor-intensive industries along with improved provision of housing and education. In the program to aid farmers in increasing their output and marketing their commodities, emphasis was placed on encouraging farmers' cooperatives and banks. Labor unions were encouraged to help improve the lot of plantation and industrial workers.

Efforts to restructure the economy in the 1980s resulted in an expansion of real GDP 6% annually on average. The 1979–84 development plan, called Repelita III, emphasized the "development trilogy" of economic growth, equity, and national stability. Top priorities were tourism and communication (15%), agriculture and irrigation (14%), mining and energy (13%), education (10%), and regional and local development (10%). The 1984–89 five-year plan, called Repelita IV, emphasized industry (9.5% growth rate), agriculture (3%), petroleum and mining (2.5%), transportation and communications (5.2%), and

construction (5%). However, low oil prices caused the government to reduce its goals and to promote private and foreign investment. Repelita V, 1989–94 emphasized industry (8.5% growth rate), agriculture (3.6%), petroleum and mining (4.2%), trade (6%), transportation and communications (6.4%), and construction (6%). The development of mining and energy were prioritized, as well as certain areas of manufacturing, forestry, agriculture, transportation, communications, and tourism. The sixth five-year development plan (1994–99), Repelita VI, forecast an annual average GDP growth rate of 6.2%, and estimated that per capita income would reach \$1000 by 1999. The plan focused on the privatization of a number of industries, and the gradual opening up of foreign investment. These goals were met by 1997, but the 1998 breakdown of the economy prompted international aid agencies to step in.

The most important economic development policy before privatization and liberalization was outlined in the 1988 Guidelines of State Policy. This document introduced transmigration development; a policy aimed at overcoming uneven population distribution in Indonesia. The policy had multiple objectives: to ease the burden of densely populated regions, to upgrade regional development, to expand job opportunities, to support national unity, and to strengthen national defense. Transmigration in densely populated areas such as Java, Bali and West Tenggara aimed to increase population productivity and decrease environmental hazards. Transmigration in sparsely populated regions such as Sumatra, Kalimantan, Sulawesi, Maluku, Irian Jaya, and East Timor, aimed to increase productivity of natural resources, as well as increase employment and job opportunities. Declining extent of land ownership by farmers was a major problem in both densely and sparsely populated areas. These activities are overseen by the Coordinating Body for the Implementation of Transmigration (BAKOPTRANS). Forestry statistics from 1985 showed that some 30 million ha of forestland in sparsely populated areas could be converted to agricultural uses. Agriculture was an important sector for development in the transmigration policy. As new areas opened more employment opportunities were predicted to be available. Productive land use included, fisheries, industry, services and industrial forest products. In Repelita V the transmigration target was to relocate 550,000 families into new settlement areas outside of Java and Bali. The third year of Repelita V (1991/92) targeted 70,000 families for transmigration, including 28,240 families of public transmigration and 41,760 families of self-initiated transmigration. In fact 64,211 families (91.7%) were resettled, consisting of 25,720 families of public transmigration and 38,491 families of self-initiated transmigration.

Major obstacles to the implementation of the policy continued to delay the preparation of the settlements in the destination areas and at the places of origin during assembly and departure of transmigrants. Agricultural lassitude was one indicator of the program's failure. In 1991/92 rice production was about the same as the previous year, but compared to the national production rate per hectare, production was considered low. The production rate of nuts, bean crops, and cassava declined during the same time periods, and while coconut plantations increased, coffee and clove estates decreased by about 30%. The increase of large and medium livestock was minor, while poultry numbers declined by 21%.

Bilateral and multinational assistance has played a major role in Indonesia's development. Before 1965, Indonesia received substantial aid from the USSR and other communist states; such funding included some \$750 million in economic credits and more than \$1 billion in military aid. Since 1966, the foreign-aid pattern has turned dramatically toward the West. A group of nations (including the United States, Netherlands, Japan, Belgium, France, Germany, Italy, United Kingdom, Switzerland,

Canada, and New Zealand) and organizations (including the IBRD and Asian Development Bank) have joined to form the Inter-Governmental Group on Indonesia (IGGI) as a major funnel for aid. Total IGGI assistance was estimated at \$2.5 billion for 1985/86. During the 1970s and early 1980s, the IMF took a central part in reorganizing Indonesia's financial structure and planning methods. At the Indonesian government's invitation, the IMF has also evaluated the country's economic programs for the purpose of advising donor nations. More recently, the IMF expanded its role by advising the government on planning and foreign aid allocation. In November 1991, in reaction to the Indonesian army's shootings of demonstrators in Dili, East Timor; the Netherlands, Denmark, and Canada suspended aid to Indonesia. In a blanket refusal to link foreign assistance to human rights issues, the government announced it would decline all future aid from the Netherlands. The government also requested that the IGGI be disbanded and replaced by the Consultative Group of Indonesia (CGI) formed by the World Bank and comprised of 18 donor countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, New Zealand, Norway, South Korea, Spain, Sweden, Switzerland, the United, and the United States) and 12 multilateral agencies. An IMF-funded program that began in 1997 offered a total of \$12.5 billion to Indonesia over a period of three years to support the financial system and aid in the restructuring of the economy. The total international aid package was projected at a total of over \$40 billion by 1999.

#### 40 SOCIAL DEVELOPMENT

The constitution enjoins the government to protect the family and to provide for the needs of the "poor and the waifs," but implementation of these principles has proceeded slowly because of the cost and the lack of professional personnel to put into effect a broad welfare program. Various government departments are responsible for welfare activities: juvenile delinquents are under the care of the Ministry of Justice; child care and maternal health programs are part of the public health program; the Ministry of Labor has responsibility for enforcement of labor welfare legislation; and the Ministry of Social Affairs is concerned with narcotics traffic, exploitation of women and children, prostitution, and people unable to provide for themselves (particularly demobilized soldiers). There is nothing approximating a general public-assistance program in the Western sense, but the society is one in which family and clan relationships run strong. Some social security provisions exist. Firms with 10 or more employees or a payroll of one million rupiah or more a month paid 3.7% of their payroll (and employees paid 2% of earnings) for retirement, disability, and survivor benefits, and coverage is gradually being extended to smaller companies and casual workers. Employers pay 6% of payroll for married employees (3% for single employees) to provide sickness and maternity benefits, and both employers and employees fund a workers' compensation program. In addition, many orphanages, homes for the aged, youth activities, and private volunteer organizations meet special needs, in some cases receiving government subsidies.

Women are accorded the same legal rights as men and they enjoy a more favorable position in Indonesia than is customary in Muslim societies. This situation is largely the result of the work of Princess Raden Ajeng Kartini at the turn of the century in promoting the development of Javanese women. The movement for the emancipation of women preceded the nationalist movement by at least 10 years. Improvement of the status of women was specifically included in the guidelines for the 1979-84 national economic plan. A Ministry of Women's Affairs was created to promote the economic and social welfare of women.

In spite of women's official equality, in practice they often find it hard to exercise their legal rights. Although they constitute

roughly one quarter of the civil service, they occupy very few of its top posts. Marriage laws define the husband as the head of the family, and divorce procedures are much more difficult for a woman. Citizenship for a child is derived solely from the father. Female workers generally receive lower pay than that for men., Although maternity leave is mandated by law, many women lose their jobs as a result of pregnancy. Violence against women, especially domestic abuse remains a serious and widespread problem.

The economic crisis of the late 1990s took a toll on the welfare of the nation's children; infant mortality nearly doubled between 1995 and 1998. UNICEF estimates that eight million pre-school-age children suffer from malnutrition.

Ethnic Chinese face considerable discrimination. There are restrictions on the rights of noncitizen Chinese to operate and own businesses. It is illegal to import Chinese language publications and the celebration of Chinese New Year is prohibited by law.

Gross violations of human rights in East Timor continue, including violence by pro-integration militias following a referendum in which a majority of Timorese voted for autonomy. Over 250,000 civilians fled the region to escape a wave of violence in which hundreds died. With the liberalization of Indonesia's government, human rights abuses decreased overall, although serious problems remain.

#### 41 HEALTH

The Ministry of Health places emphasis on preventive work, while private initiative is encouraged in the curative field. Only 1% of the GDP goes to public health expenditures (1990-95). National health programs, of which family planning is an important part, stress the building of small and healthy families. Eradication of contagious diseases focuses on malaria, rabies, elephantiasis, tuberculosis, cholera, and leprosy. Filariasis is widespread. This tropical disease is endemic in remote rural areas. The World Health Organization reported cholera active in Indonesia. Malaria is also endemic to the country; in 1994 there were 140,559 cases of malaria. The incidence of the disease was 729 per 100,000 population in 1996. There were also 49,647 cases of tuberculosis. In 1999, there were 282 cases of tuberculosis per 100,000 people. Overcrowded cities, poor sanitation, impure water supplies, substandard urban housing, and dietary deficiencies are contributing factors to health problems. In 2000, 76% of the population had access to safe drinking water and 56% had adequate sanitation.

Average life expectancy in 2000 was 66 years for men and women. The 2000 infant mortality rate was 41 per 1,000 live births. The overall death rate was estimated at 6.3 per 1,000 in 2002. The maternal mortality rate was 450 deaths per 100,000 live births in 1998. Malnutrition was present in 42% of all children under five years of age as of 2000. As of September 1995, the World Health Organization (WHO) reported 130,988 deaths of children under five from diarrheal diseases. The estimated goiter rate was 27.7 per 100 school-age children in 1996.

Indonesia has received much help from the UN, particularly through WHO and UNICEF, in solving health problems. The Ministry of Health is seeking to build up a health service, starting at the village level with a hygiene officer, who is an official of the village, and working up through groups of villages, with more facilities and better trained personnel, to the regional doctor, who directs the curative and preventive work.

In 1990, there were 25,752 doctors, 98,842 nurses, and 6,689 midwives. More than one-third of the country's doctors practice in Jakarta and other big cities. In 1990-95, 80% of the population had access to health care services. Tobacco consumption has increased from 1.4 kg (3.1 lbs) in 1984-86 to 1.6 kg (3.5 lbs) a year per adult in 1995.

In 1991, Indonesia had 1,552 hospitals, with about 120,711 beds (one bed per 1,515 people in 1994). In addition, there were 5,656 public health centers. As of 1999, there were an estimated 0.2 physicians and 0.7 hospital beds per 1,000 people. In the same year, total health care expenditure was estimated at 1.6% of GDP.

Indonesia's birth rate was an estimated 21.9 per 1,000 people as of 2002. About 57% of married women (ages 15 to 49) were using contraception as of 2000. A total of 40% of all Indonesian children under five were underweight in the years 1990–95. Immunization rates for 1997 for children up to one year of age were as follows: tuberculosis, 100%; diphtheria, pertussis, and tetanus, 91%; polio, 90%; and measles, 92%. In 1995 the government paid 100% of the entire vaccine bill.

As of 1999, the number of people living with HIV/AIDS was estimated at 52,000 and deaths from AIDS that year were estimated at 3,100. HIV prevalence was 0.05 per 100 adults.

## 42 HOUSING

Housing is an acute problem in both urban and rural areas. In the rural areas, housing generally falls below even the most modest standards. In the 1970s, about one-fifth of the country's housing consisted of one-room dwellings; in the countryside, most had no electricity. National statistics from 1998 indicate that only about 20% of all residences had access to piped water. In 2000, only about 66% of the population had access to improved sanitation systems.

Under the 1970–75 plan, the government left construction of housing to private initiative and restricted itself to activities designed to stimulate house construction, such as town planning and the provision of water supplies and sanitation. The 1975–79 and 1979–84 plans included government construction of housing. The 1984–89 plan had a target of 300,000 units, of which 140,000 were to be provided by the government and 160,000 by private sources. In 1990 alone, 210,000 new housing units were completed and the total number of dwellings stood at 44,855,000 in the mid-1990s.

Floods, earthquakes, drought, forest fires and local communal conflicts continue to result in shelter problems for over one million displaced and homeless residents.

## 43 EDUCATION

Vigorous efforts have been made to advance education and reduce illiteracy. In 1971, overall literacy was estimated to be about 58%, ranging from 77% in the cities to only 52% in rural areas. By the year 2000, adult illiteracy rates were estimated at 13.0% (males, 8.1%; females, 17.9%). Under the constitution, education must be nondiscriminatory, and six years of primary education are free and compulsory. In practice, however, the supply of schools and teachers is inadequate to meet the needs of the fast-growing under-15 age group. In the mid-1990s, an estimated 97% of primary-school-age children were enrolled in primary schools. In 1997, 29,236,283 students were enrolled in Indonesia's 173,893 primary schools, with 1,327,178 teachers. The student-to-teacher ratio stood at 22 to 1. Secondary schools employed 986,896 teachers and enrolled 14,209,974 students in that same year. As of 1999, 91% of primary-school-age children were enrolled in school, while 48% of those eligible attended secondary school. Schools are coeducational, except for certain vocational and religious schools. Private (mostly Islamic religious) schools receive government subsidies if they maintain government standards. Bahasa Indonesia is the language of instruction, but local dialects may be used until the third level.

The school system includes a six-year primary school, a three-year junior secondary school, a three-year senior secondary school, and higher education in universities, faculties, teacher-training colleges, and academies. Junior and senior technical schools have been brought into line with junior and senior

secondary schools. Patterned after Dutch practices, Indonesia's educational system divides secondary-school students into groups according to curriculum. In the third year of the junior secondary school, the students are separated into an A-curriculum (languages) and a B-curriculum (mathematics). In senior secondary school, the students normally continue in their previous curriculum, but B-curriculum students may shift to an economics curriculum (C). Teacher-training schools range from the basic teacher-training program of four years (post-primary education) up through teachers' colleges, academies, faculties, and universities. Upon entering institutions of higher learning, students must enter the division for which their curriculum has prepared them; thus, A-curriculum students enter the language and philosophical faculties.

There are 51 universities, the largest of which are the University of Indonesia (in Jakarta) and the University of Gajah Mada (in Yogyakarta). Most of the universities are new, having been established since the mid-1950s. In all universities and third-level institutions, there were a total of 157,695 teachers and 2,303,469 students in 1996.

## 44 LIBRARIES AND MUSEUMS

Indonesia's largest library was created in 1980 with the merger of four libraries into the Perbustakaan National Library of Indonesia, located in Jakarta, with a collection of over 1.15 million volumes. This library includes the large National Museum collection, which was established in 1778. Another well-established library is the Bibliotheca Bogoriensis, also called the Central Library for Biological Sciences and Agriculture; founded in 1814 as a library associated with the botanical gardens in Bogor, on Java, it holds more than 400,000 volumes. Another national library is the National Scientific and Technical Documentation Center, founded in 1965 in Jakarta, with a collection of more than 150,000 volumes. The Library of the Indonesian Parliament, also in Jakarta, has 150,000 volumes. There is little coordination of public libraries, but there are state libraries and local reading rooms in almost every province. University libraries tend to be autonomous faculty or departmental libraries lacking central coordination. The University of Indonesia in Jakarta has just over 200,000 volumes and is the largest in the country.

Two outstanding museums in Indonesia are the National Museum in Jakarta, which is a general museum of Indonesian history and culture, and the Zoological Museum in Bogor, on Java. There is also a Bali Museum at Denpasar, and there are several regional historical museums throughout the provinces. Jakarta also houses a museum of crime, a large military museum, a museum chronicling the country's fight for independence, and several decorative arts museums.

## 45 MEDIA

The government owns and operates postal services and telecommunications facilities through Perumtel, a state enterprise. In 1998 there were over 5.5 million mainline telephones in Indonesia as well as an additional 1.07 million cellular phones in use. The Indonesian-owned telecommunications satellite Palapa B was launched in 1983.

As of 1998, there were 678 AM and 43 FM radio stations and 41 television stations (18 government-owned and 23 commercial). Programs originating in Jakarta are in Bahasa Indonesia; programs from regional stations are usually in local languages or dialects. The overseas service (Voice of Indonesia) broadcasts 11 hours daily in Arabic, Chinese, English, French, German, Japanese, Malay, and Thai. Television service was inaugurated in 1962. In 1995 there were three television networks, TV-Indonesia (TVRI), Rejawali Citra TV, and an educational network in Jakarta. In 2000 there were 157 radios

and 149 television sets for every 1,000 people. In 2001, there were 2 million Internet subscribers served by 24 service providers.

Most newspapers are published in Bahasa Indonesia, with a small number appearing in local dialects, English, and Chinese. The leading dailies, with their estimated 2002 circulations, are as follows:

	LANGUAGE	CIRCULATION
JAKARTA		
<i>Kompas</i>	Bahasa Indonesia	523,450
<i>Pos Kota</i>	Bahasa Indonesia	500,000
<i>Suara Pembaruan</i>	Bahasa Indonesia	250,000
<i>Berita Buana</i>	Bahasa Indonesia	150,000
<i>Merdeka</i>	Bahasa Indonesia	130,000
<i>Jakarta Post</i>	English	50,000
OTHER CITIES		
<i>Pikiran Rakyat</i> (Bandung)	Bahasa Indonesia	150,000
<i>Suara Merdeka</i> (Semarang)	Bahasa Indonesia	200,000
<i>Harian Pagi Memorandum</i> (Surabaya)	Bahasa Indonesia	190,000
<i>Jawa Pos</i> (Surabaya)	Bahasa Indonesia	120,000
<i>Surabaya Post</i> (Surabaya)	Bahasa Indonesia	115,000
<i>Analisa</i> (Medan)	Bahasa Indonesia	75,000

The constitution declares that everyone has the “right to freedom of opinion and expression.” Journalistic activities of foreigners, however, are limited in accordance with the policy that “freedom of expression” does not permit interference in domestic affairs or dissemination of “foreign ideologies” detrimental to the Indonesian system of government. The government censors foreign films and publications, and Indonesian newspapers have been temporarily closed down for violating news guidelines. In 1982, a new press law established a Press Council of government officials, journalists, and scholars empowered to decide what news may be printed. The government began to issue and revoke “publishing licenses” in 1984 to control the media. In 1994 the licenses of three well-known news magazines were revoked.

#### 46 ORGANIZATIONS

The most successful cooperatives in Indonesia have been village unit cooperatives, designed to meet the small farmer’s need for credit and aid in marketing cash crops. The cooperatives have also been instrumental in distributing improved rice, fertilizers, pesticides, and superior cattle breeds, and also in instructing farmers in their handling. Village unit cooperatives also exist for such cottage industries as batik (a method of hand-painting textiles), textiles, and garment production, which are important forms of employment in rural areas.

Among social welfare and women’s organizations are the Indonesian Women’s Congress, a federation founded in 1928; the National Council on Social Welfare; the Indonesian Planned Parenthood Association; the Council of Muslim Women’s Organizations; GOPTKI, a federation of organizations that run kindergartens; Association of Women of the Republic of Indonesia; and the Indonesian National Commission on the Status of Women. International organizations with chapters in Indonesia include Habitat for Humanity, the Red Cross, and the Kiwanis and Lion’s clubs.

National youth organizations include the Indonesian Hindu Youth Association, Indonesian Moslem Youth, Islamic Association of University Students, National Board of IMKA/YMCA Indonesia, Students Solidarity for Democracy in India, and Young Generation of Islam of Indonesia. There is also a national association for Boy Scouts and Girl Scouts (Indonesia Gerakan Pramuka).

There are a number of organizations promoting education and research into various arts and sciences, including the Indonesian Institute of Sciences

Many trade and business promotional organizations are concerned with individual sectors of the business world—

exporters’ organizations, sugar traders’ associations, and so on. An Indonesian chamber of commerce and industries has connections with leading business organizations in the country. United Kingdom, Chinese, Indian, and Pakistani business people have national associations. The Indonesian Consumers Association is active. ASEAN Council on Petroleum, ASEAN Occupational Safety and Health Network, and ASEAN Regional Forum all have offices in Jakarta.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among the most popular tourist destinations are Bali, the restored Borobudur Buddhist temple in Java, and historic Yogyakarta. Cultural attractions include traditional Balinese dancing, the percussive sounds of the Indonesian orchestra (*gamelan*), the shadow puppet (*wayang kulit*) theater, and the famous Indonesian rijsttafel, a banquet of rice and savories. Tourism, as a means of affording wider employment, is strongly promoted by the government, which has supported the development of surfing, skindiving, and other marine sports in the reefs and tropical seas of the archipelago and the creation of resorts in Sumatra, Kalimantan, Nusa Tenggara, Maluku Province, and Irian Jaya. Gambling has been prohibited since 1981.

A valid passport and an entry visa are required of most foreigners entering Indonesia. Citizens of Israel and South America must obtain special travel affidavits from Indonesian officials in their own countries. For certain countries, including the US, a tourist visa does not need a visa for up to 60 days. For other countries, a tourist visa for visits up to 30 days is obtainable. Precautions against malaria, hepatitis, typhoid, and cholera are recommended.

An estimated 5,064,217 foreign tourists visited Indonesia in 2000, with over 70% coming from East Asia and the Pacific region. About 25% of travelers are from Singapore. Tourist receipts amounted to \$5.7 billion. The same year, there were 252,984 hotel rooms with an occupancy rate of 42%.

The cost of traveling in Indonesia varies greatly from city to city. According to 2003 US government estimates, the daily cost of staying in Jakarta was approximately \$195 per day. Daily expenses were an estimated \$130 for Surabaya, \$114 for Medan, and \$220 for Bali. Elsewhere the estimated daily cost was about \$96.

#### 48 FAMOUS INDONESIANS

Gajah Mada, prime minister under King Hayam Wuruk (r.1350–89), brought many of the islands under one rule, the Majapahit Empire. Princess Raden Ajeng Kartini (1879–1904), founder of a school for girls, led the movement for the emancipation of women. Her posthumously published letters, *Door duisternis tot licht*, occasioned considerable interest in the Western world. Many creative and performing artists have attained local prominence, but Indonesia’s only internationally known artist is the painter Affandi (1910–90). Contemporary novelists of considerable local importance include Mochtar Lubis (b.1922). H. B. Jassin (b.1917) is an influential literary critic. Sukarno (1901–70), a founder and leader of the nationalist movement, is the best-known figure of modern Indonesia; Mohammad Hatta (1902–80), one of the architects of Indonesian independence, served as Sukarno’s vice-president and concurrently as prime minister. President Suharto (b.1921), leader of Indonesia after Sukarno’s overthrow, dominated Indonesia’s political and economic life for three decades (1968–98). Adam Malik (1917–84) established an international reputation as a negotiator in restoring and improving relations with Malaysia, the Philippines, the United States, the United Kingdom, and the UN; formerly a foreign minister (1966–77), he became vice-president (1978–83). Umar Wirahadikusumah (b.1924), a retired army general, became vice-president in 1983.



#### 49 DEPENDENCIES

Indonesia has no territories or colonies.

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# IRAN

Islamic Republic of Iran  
*Jomhuri-ye Eslami-ye Iran*

**CAPITAL:** Tehran

**FLAG:** The national flag is a tricolor of green, white, and red horizontal stripes, the top and bottom stripes having the Arabic inscription *Allah Akbar* ("God Is Great") written along the edge nearest the white stripe. In the center, in red, is the coat of arms, consisting of a stylized representation of the word *Allah*.

**ANTHEM:** The national anthem begins, "On the horizon rises the Eastern Sun."

**MONETARY UNIT:** The rial (R) is a paper currency of 100 dinars. There are coins of 1, 5, 10, 20, and 50 rials, and notes of 100, 200, 500, 1,000, 2,000, 5,000, and 10,000 rials. R1 = \$0.0001226 (or \$1 = R8,150) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but local units are widely used.

**HOLIDAYS:** National Day, 11 February; Oil Nationalization Day, 20 March; No Ruz (New Year), 21–24 March; Islamic Republic Day, 1 April; 13th Day of No Ruz (Revolution Day), 2 April. Religious holidays (according to the lunar calendar) include Birthday of Imam Husayn; Birthday of the Twelfth Imam; Martyrdom of Imam 'Ali; Death of Imam Ja'afar Sadiq; 'Id al-Fitr; Birthday of Imam Reza; 'Id-i-Qurban; 'Id-i-Qadir; Shab-i-Miraj; Martyrdom of Imam Husayn; 40th Day after the Death of Imam Husayn; Birthday of the Prophet; Birthday of Imam 'Ali.

**TIME:** 3:30 PM = noon GMT.

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

Situated in southwestern Asia, Iran covers an area of 1,648,000 sq km (636,296 sq mi) and extends about 2,250 km (1,398 mi) SE–NW and 1,400 km (870 mi) NE–SW. Comparatively, the area occupied by Iran is slightly larger than the state of Alaska. Iran is bounded on the N by Armenia, Azerbaijan, Turkmenistan, and the Caspian Sea, on the E by Afghanistan and Pakistan, on the S by the Gulf of Oman and the Persian Gulf, on the W by Iraq, and on the NW by Turkey, with a total land boundary length of 5,440 km (3,380 mi). The coastline is 2,440 km (1,516 mi). The shoreline on the Caspian Sea is 740 km (460 mi). Iran's territory includes several islands in the Persian Gulf.

Iran's capital city, Tehran, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

Most of the land area consists of a plateau some 1,200 m (4,000 ft) above sea level and strewn with mountains. The Zagros and Elburz ranges stamp a "V" upon the plateau; the apex is in the northwest, and within the lower area between the arms are to be found salt flats and barren deserts. Most of the drainage is from these two great ranges into the interior deserts, with limited drainage into the Caspian Sea and the Persian Gulf. The ranges run in parallel files, enclosing long valleys that provide most of the agricultural land. Mt. Damavand, northeast of Tehran, rises to 5,671 m (18,606 ft), while the Caspian littoral is below sea level and has a semitropical climate. Only the Karun River, emptying into the Persian Gulf, is navigable for any distance, but the rivers that rush down from high altitudes offer fine sources of power.

Harbors of limited depth are found along the Persian Gulf, and the Caspian Sea has similar facilities for coastal fishing and trade. Iran is geologically unstable with occasional severe earthquakes. About 140,000 people were killed in Iranian earthquakes during the twentieth century.

## <sup>3</sup>CLIMATE

Iran has a continental type of climate, with cold winters and hot summers prevalent across the plateau. On the plateau, the annual rainfall does not exceed 30 cm (12 in), with the deserts and the Persian Gulf littoral receiving less than 13 cm (5 in). Snow falls heavily on the mountain peaks and is the principal source of water for irrigation in spring and early summer. The Caspian littoral is warm and humid throughout the year, and the annual rainfall is from about 100 to 150 cm (40–60 in). Clear days are the rule, for the skies are cloudless more than half the days of each year. The seasons change abruptly. By the Persian New Year, the first day of spring, orchards are in bloom and wild flowers abound. The Tehran temperature ranges from -3°C (27°F), the average low, to an average high of 7°C (45°F) in January, and from an average minimum of 22°C (72°F) to an average maximum of 37°C (99°F) in July.

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

More than one-tenth of the country is forested. The most extensive growths are found on the mountain slopes rising from the Caspian Sea, with stands of oak, ash, elm, cypress, and other valuable trees. On the plateau proper, areas of scrub oak appear on the best-watered mountain slopes, and villagers cultivate orchards and grow the plane tree, poplar, willow, walnut, beech, maple, and mulberry. Wild plants and shrubs spring from the barren land in the spring and afford pasture, but the summer sun burns them away. Bears in the mountains, wild sheep and goats, gazelles, wild asses, wild pigs, panthers, and foxes abound. Domestic animals include sheep, goats, cattle, horses, water buffalo, donkeys, and camels. The pheasant, partridge, stork, and falcon are native to Iran.

## <sup>5</sup>ENVIRONMENT

Iran's high grasslands have been eroded for centuries by the encroachment of nomads who overgrazed their livestock. Desertification resulting from erosion, and deforestation of the

high plateau pose additional dangers to Iran's environment. UN sources estimate that 1 to 1.5 million hectares per year become desert land. The basic law controlling the use of forests dates from 1943. In 1962, the forests and pastures in Iran were nationalized to check trespassing deforestation. In early 1983, blown-out oil wells in the Persian Gulf war zone between Iran and Iraq caused a huge oil slick that threatened ocean and shore life along the southwestern Iranian coast. Air and water pollution have become significant problems in Iran in the aftermath of the 1991 Persian Gulf War. The water in the Gulf is polluted with oil and black rain, and the burning of Kuwaiti oil wells caused significant air pollution as well. Iran also has the 19th highest level of industrial carbon emissions in the world, with a 1992 total of 235 million metric tons, a per capita level of 3.81 metric tons. Iran has 128.5 cubic kilometers of renewable water resources with 92% used for farming activity and 2% used for industrial purposes. Only 83% of the rural people have pure drinking water. Iran's cities produce about 6.2 million tons of solid waste per year. Iran's Department of Environment was established under the Environment Protection and Enhancement Act of 1974; no information is available on implementing legislation.

As of 2001, 20 of Iran's mammal species and 14 bird species are endangered. Endangered species in Iran include the Baluchistan bear, Asiatic cheetah, Persian fallow deer, Siberian white crane, hawksbill turtle, green turtle, Oxus cobra, Latifi's viper, dugong, and dolphins. The Syrian wild ass has become extinct.

## 6 POPULATION

The population of Iran in 2003 was estimated by the United Nations at 68,920,000, which placed it as number 18 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 103 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.24%, with the projected population for the year 2015 at 81,422,000. The population density in 2002 was 40 per sq km (104 per sq mi).

It was estimated by the Population Reference Bureau that 62% of the population lived in urban areas in 2001. The capital city, Tehran, had a population of 7,158,000 in that year. The populations of other major metropolitan areas were Mashad, 2,378,000; Esfahan, 2,644,000; Tabriz, 1,624,000; Shiraz, 1,113,000; Ahvaz, 1,018,000; and Kermanshan, 949,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.8%.

## 7 MIGRATION

Traditionally, there has been little immigration to Iran, with the exception of Shi'a Muslims coming from Iraq. There has been some emigration to Europe and the United States, particularly by Iranians who were studying overseas at the time of the revolution of 1979. About 100,000 Kurds were repatriated from Iran to Iraq during the mid-1970s after the suppression of a Kurdish rebellion in the latter country. Between 1980 and 1990, however, an increased number of Shi'a Muslims fled Iraq because of the Iran-Iraq and Gulf wars; at the end of 1992, 1,250,100 were refugees in Iran. Perhaps 2.8 million Afghan refugees moved to Iran after the Soviet invasion of Afghanistan in December 1979. About 200,000 returned in 1992, and about 2.1 million remained in mid-1993. At least 50,000 refugees from Azerbaijan had fled to Iran by late 1993 to escape Armenian occupation. In the fall of 1996, 65,000 Iraqi Kurds entered Iran due to fighting between two different groups of Iraqi Kurds.

According to 1999 statistics, Iran has the largest refugee population in the world, hosting some 2 million refugees. There

are an estimated 1.4 million Afghan refugees, 580,000 Iraqis, and 40,000 refugees from Tajikistan, Bosnia, Eritrea, and Somalia. Only 5% of refugees live in 30 designated camps, while the rest have integrated themselves in cities and villages around the country. An increase in unemployment and faltering economic conditions have resulted in increased pressure for refugees to return to their homelands. However, due to current conditions in Iraq and Afghanistan, chances for significant repatriation remain poor. The Iranian government feels a heavy economic and social burden and believes the international community should share more responsibility for these refugees.

In 2000 the net migration rate was -1.4 migrants per 1,000 population. The government views the immigration level as too high, but the emigration level as satisfactory. The total number of migrants in the country was 2,321,000 in 2000, down from 3,809,000 ten years earlier.

## 8 ETHNIC GROUPS

Present-day Iranians, or Persians, are considered to be direct descendants of the Aryans who moved into the plateau in the second millennium BC. They speak Persian, or Farsi, and number more than half the total population. In the Zagros range and its extensions are to be found the Kurds, Lurs, Bakhtiari, Qashqa'i, and Qajars; the first three are said to be of stock similar to the Iranian element, and they speak languages that stem from ancient Indo-European languages. At various times after the 10th century AD, Turkish tribes settled in the region, and Turkish-speaking groups are still found in several parts of the country. One-eighth of the total population dwells in East and West Azerbaijan, and there are sizable groups of Azerbaijanis in major cities elsewhere, including Tehran. Arab groups arrived during and after the 7th century AD; their descendants live in the south and southwest and in scattered colonies elsewhere.

In general, non-Iranian elements are to be found along the perimeter of the country. Of these, certain nomadic groups move back and forth across the frontiers. Tribal groups have been a conspicuous element in Iran for many centuries, migrating vertically in spring and fall between high mountain valleys and hot, lowland plains. The important migratory groups include the Qashqa'i, Qajars, Bakhtiari, Balochi, and Turkmen. A large proportion of these people are now settled, however. The nomadic way of life is on the decline, and official policy has sought to resettle these groups on farmlands.

According to 1999 estimates, Persians account for 51% of the population, Azeri 24%, Gilaki and Mazandarani 8%, Kurd 7%, Arab 3%, Lur 2%, Balochi 2%, and Turkmen 2%.

## 9 LANGUAGES

Farsi, commonly called Persian in the West, is the official language of Iran. An Indo-European language of the Indo-Iranian group, Farsi derives from ancient Persian, with an admixture of many Arabic words. Arabic characters and script are used in writing modern Persian. Dialects of Turkish, or Turki—especially Azeri, the language of the Azerbaijanis—are spoken throughout northwestern Iran, by the Qashqa'i tribe in the southwest, and in parts of the northeast by Turkmen tribes and others. The Lurs, Kurds, and Bakhtiari have languages and dialects of their own that descend from earlier Indo-European languages, and the Balochi language spoken in southeastern Iran also is of Indo-European origin. A small number of Brahui in the southeast speak a Dravidian language. According to 1999 estimates, 58% of the population speaks Persian or Persian dialects, 26% Turkic or Turkic dialects, 9% Kurdish, 2% Luri, 1% Balochi, 1% Arabic, 1% Turkish, and 2% other.

## 10 RELIGIONS

As of 2002, about 99% of the population is Muslim, with 89% of the people being Shi'a Muslims and 10% Sunni Muslims. The



LOCATION: 25° to 40°n; 44° to 63°e. BOUNDARY LENGTHS: Afghanistan, 936 kilometers (582 miles); Armenia 35 kilometers (22 miles); Azerbaijan (N) 432 kilometers (268 miles); Azerbaijan (NW) 179 kilometers (111 miles); Caspian Sea coastline, 740 kilometers (460 miles); Gulf of Oman and Persian Gulf coastlines, 2,440 kilometers (1,516 miles); Iraq, 1,458 kilometers (906 miles); Pakistan, 909 kilometers (565 miles); Turkey, 499 kilometers (310 miles); Turkmenistan, 992 kilometers (616 miles). TERRITORIAL SEA LIMIT: 12 miles.

remainder of the population are Zoroastrian, Jewish, Christian, Mandaean, and Baha'i.

Iran is the only Islamic country where Shi'a Muslims hold the reins of power. Shi'a Islam is the official religion of the country and the president, prime minister, and cabinet ministers must be Muslims. The Christian population (about 115,000 to 120,000) includes Armenians and, in the northwest area, Nestorian Christians (Assyrians). Colonies of Parsis, or Zoroastrians, in Yazd, Kerman, and other large towns number about 35,000. The Baha'is number about 300,000 to 350,000; their faith, which sprang from the teachings of a 19th-century Muslim in Iran, has been denounced as heresy to Islam. The Baha'is have been severely persecuted by the Shi'a government since the 1979 revolution, and many of their religious leaders have been executed. The Jewish community, which numbered about 25,000

in 1984, had dwindled to no more than 14,000 by 1990 and may have declined still further since then under the impact of persecution.

## 11 TRANSPORTATION

Iran had 140,200 km (87,120 mi) of roads in 2002, of which 49,440 km (30,722 mi) were paved, including 470 km (292 mi) of expressways. A1, a major paved highway, runs from Bazargan on the Turkish border to the border with Afghanistan. Another major highway, A2, runs from the Iraqi border to the Pakistani border. Much of the revolutionary government's road-building activity has centered on improving roads in rural areas. In 2000 there were over 1,139,500 passenger cars and 384,900 commercial vehicles.

The state-owned Iranian State Railway has 6,130 km (3,809 mi) of track. The main line runs south for 1,392 km (865 mi) from Bandar Turkoman on the Caspian Sea, through Tehran, to Bandar-e Khomeini on the Persian Gulf. Rail construction from Bafq to Sirjan has been completed and is operational.

Iran's main port at Khorramshahr on the Persian Gulf, as well as the port at Abadan, were largely destroyed in fighting during the 1980–88 war with Iraq. Khorramshahr is in limited operation since November 1992. Other ports on the Gulf are Bandar-e Khomeini, Bandar 'Abbas, and Bushehr. Both Bandar-e Khomeini and Bushehr were damaged because of the war. The government is continuing the previous regime's program to modernize the port at Bandar 'Abbas. On the Caspian Sea, there are the ports of Bandar Anzeli (formerly Bandar Pahlavi), and Naushahr. In addition, there are the oil shipment ports of Kharg Island (a principal target in the war with Iraq) and Abadan. There are 904 km (562 mi) of waterways. The principal inland waterways are Lake Urmieh and the Karun River. The Shatt al Arab is usually navigable by maritime traffic for about 130 km (81 mi). In 2002, the Iranian merchant marine included 147 vessels of at least 1,000 GRT, with a total capacity of 4,136,971 GRT.

Iran had 322 airports in 2001, 122 of which had paved runways. Principal airports include Bandar 'Abbas, Mehrabad International at Tehran, and Shiraz International at Shiraz. The state-owned Iran Air maintains frequent service to 15 cities in Iran and is an international carrier. In 2001, 9,317,900 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

As early as 6000 BC, communities on the Iranian plateau were carrying on agriculture, raising domestic animals, and producing pottery and polished stone implements. Sites datable to later than 3000 BC are numerous and offer quantities of bronze instruments and painted pottery of the finest types. About 1500 BC, masses of Indo-Europeans, or Aryans, began to cross the plateau of Iran. The Iranian group included Medes, Persians, Parthians, Bactrians, and others. The Medes settled in western Iran (Media) about 900 BC and established their capital at Ecbatana (modern Hamadan); the Persians settled to the south of them (Parsis) around 700 BC. The Median king Cyaxares (625–585 BC), along with the Chaldeans, destroyed the power of neighboring Assyria. In the area of Parsis, the Achaemenid clan became overlords, and in 550 BC, their leader, Cyrus the Great, revolted against the Medes; forming a union of Medes and Persians, he then drove with armies both into Asia Minor and to the east of the Iranian plateau and established the Achaemenid Empire. Cambyses, Darius, Xerxes I, and Artaxerxes I were notable rulers of this line who penetrated Greece, Egypt, and beyond the Oxus. The Achaemenid power was centered at Susa and Persepolis; the ruined site of the latter is impressive even today. Zoroastrianism was the religion of the rulers.

In his eastward sweep (334–330 BC), Alexander the Great defeated vast Achaemenid forces and went on to capture Susa and to burn Persepolis. In the 3rd century BC, the Parthians moved into the area east of the Caspian and then into the Achaemenid Empire, establishing the new Parthian kingdom; later rulers moved west to come in contact with and then to fight the Roman Empire. The Parthians considered themselves spiritual heirs of the Achaemenids and adopted Zoroastrianism as the official religion. Weakened by long wars with Rome, the Parthians were followed by a local dynasty, the Sassanian, which arose in the area of Fars in southwestern Iran. Wars with Rome continued and were followed by a struggle with the Byzantine Empire. The Sassanian period (AD 226–641) was one of cultural consolidation and was marked by economic prosperity and by a series of enlightened rulers.

During the first half of the 7th century AD, Arab warriors burst out of the Arabian Peninsula to overwhelm the Sassanian Empire and to spread the teachings of the prophet Muhammad, embodied in Islam. By the opening of the ninth century, Islamic doctrine and precepts had spread over the plateau, and local dynasties faithful to the Muslim creed emerged. Early in the 11th century, the Turkish Ghaznavid dynasty held power from western Iran to the Indus River. Their greatest ruler was Mahmud of Ghazni, a renowned conqueror and a patron of the arts. The Ghaznavids were replaced by the Seljuks, descended from Turkish nomad warriors enlisted in their service.

The Seljuk kingdom had its capital at Ray, just south of Tehran, and stretched from the Bosphorus to Chinese Turkestan. Of rude origins, such rulers as Tughril Beg, Alp Arslan, and Malik Shah did much to promote cultural pursuits and enhance the character of Persian civilization.

In 1219, Mongol hordes under Genghis Khan (Temujin) began to move into Iran; successive waves subdued and devastated the country. Hulagu, a grandson of Genghis, settled in Maragheh in Azerbaijan and as Il-khan, or chief of the tribe, gave this title to the Il-khanid dynasty. His successors, such as Ghazan Khan and Oljaitu, ruled from Tabriz and Sultaniya, and once again untutored invaders became converts to Islam and patrons of Persian science, learning, and arts. Rivalries within the military leadership brought about the breakdown of Il-khanid power in the second half of the 14th century.

Qajar power began to fade at the turn of the 19th century. In the 1890s, Shi'a clerics led a national boycott that made the shah rescind a decree awarding a tobacco monopoly to a foreign agent. In 1906, a coalition of bazaar merchants, clerics, intellectuals, and tribal leaders forced the shah to accept a constitution. This liberal initiative was frustrated, however, by the power of the British and Russians, who controlled spheres of influence in the south and north of Iran. In 1380, Timur ("Timur the Lame," or, in the west Tamerlane) began to move into the Iranian plateau from the east. Within a decade, the entire area was in his power, bringing a renaissance of culture at Herat (in modern Afghanistan) and other towns, but later rulers lacked the force and ability to hold the empire together. Early in the 16th century a number of smaller, local dynasties emerged throughout Iran. The most powerful was the Safavid dynasty, whose leaders, descendants of a spiritual head of the Shi'a sect, imposed this form of Islam on their subjects. The fourth and greatest of this line, Shah Abbas (r.1587–1628), moved the capital to Esfahan, where he had many splendid buildings constructed. The Safavid period, marked by the emergence of a truly native Iranian dynasty after the lapse of many centuries, was a period of military power and general prosperity. However, decline set in, and in 1722, Esfahan fell to invading forces from Afghanistan. Nadir Shah, an Afshar tribesman from the north, drove off the Afghans and in 1736 established the Afshar dynasty. By the end of the 18th century, Zand rulers, dominant in the south, were replaced by the Qajars, a Turkish tribe.

After a period of chaos, the British arranged for a Persian Cossack officer, Reza Khan, to come to power, first as minister of war in 1921, then prime minister, finally in 1925 as Reza Shah, the first sovereign of the Pahlavi dynasty. With ruthless authority, he sought to modernize Iran along the lines of Atatürk in Turkey. In 1941, suspecting him of pro-German sympathies, the British forced Reza Shah to abdicate in favor of his 21-year-old son, Muhammad Reza. British and Russian forces set up a supply line across Iran to the USSR. In April 1946, the British left, but the USSR refused to withdraw its forces. Under pressure from the UN and the United States, Soviet troops eventually withdrew in December 1946.

Oil, the source of nearly all Iran's national wealth, quickly came to dominate postwar politics. Muhammad Mossadeq, who as leader of the National Front in the national assembly (Majlis)

led the fight in 1947 to deny the USSR oil concessions in northern Iran, became chairman of the oil committee of the Majlis. On 15 March 1951, the Majlis voted to nationalize the oil industry, which was dominated by the Anglo-Iranian Oil Co. (AIOC), a prewar concession to the United Kingdom. When the government of Prime Minister Hosein Ala took no immediate action against the AIOC, the Majlis demanded his resignation and the appointment of Mossadeq, who became prime minister in April. The AIOC was nationalized, but its output rapidly declined when the United Kingdom imposed an embargo on Iranian oil, as well as other economic sanctions. As Iran's economic situation worsened, Mossadeq sought to rally the people through fervent nationalistic appeals. An attempt by the shah to replace him failed in the summer of 1952, but by August 1953, Mossadeq had lost his parliamentary majority, but not his popular support. With the backing of a referendum, Mossadeq dissolved the Majlis and then refused to resign when the shah again tried to oust him. The shah fled Iran for four days but returned on 22 August, with backing from the military, the United States, and the United Kingdom. A new conservative government issued an appeal for aid; in September, the United States granted Iran \$45 million. Mossadeq was convicted of treason in December.

After 1953, the shah began to consolidate his power. New arrangements between the National Iranian Oil Co. and a consortium of US, UK, and Dutch oil companies were negotiated during April–September 1954 and ratified by the Majlis in October. The left-wing Tudeh (Masses) Party, which had been banned in 1949 but had resurfaced during the Mossadeq regime, was suppressed after a Tudeh organization was exposed in the armed forces. In 1957, the government sponsored two new pseudo-parties, which contested parliamentary elections in 1960 and 1961. Meanwhile, Iran became affiliated with the Western alliance through the Baghdad Pact in 1955, later the Central Treaty Organization. (CENTO was dissolved after Iran pulled out in 1979.) Frontier demarcation agreements were signed with the USSR in April 1957.

US assistance and goodwill were plainly essential for the shah. In 1961, President John F. Kennedy urged him to undertake a more liberal program. Under the “white revolution” of 1962–63, the shah initiated land reform, electoral changes (including, for the first time, the right of women to hold and vote for public office), and broad economic development. Opposition to the reform program, the dictatorial regime, and the growing American influence was suppressed. Political dissent was not tolerated.

The shah's autocratic methods, his repressive use of the secret police (known as SAVAK), his program of rapid Westernization (at the expense of Islamic tradition), his emphasis on lavish display and costly arms imports, and his perceived tolerance of corruption and of US domination fed opposition in the late 1970s. The economic boom of the previous 15 years also came to an end. Islamic militants, radical students, and the middle class all joined in the revolt, until virtually the entire population turned against the shah. Following nine months of demonstrations and violent army reactions, martial law was declared in Iran's major cities in September 1978, but antigovernment strikes and massive marches could not be stopped. On 16 January 1979, the shah left Iran, appointing an old-line nationalist, Shahpur Bakhtiar, as prime minister. However, the leader of the Islamic opposition, Ayatollah Ruhollah Khomeini (the term *ayatollah* is the highest rank of the Shi'a clergy), who had spent 15 years in exile, first in Iraq and briefly in France, refused to deal with the Bakhtiar regime. Demonstrations continued, and on 1 February the *ayatollah* returned to a tumultuous welcome in Tehran. He quickly asserted control and appointed a provisional government, which took power after a military rebellion and the final collapse of the shah's regime on 11 February.

After a referendum, Khomeini on 1 April declared Iran an Islamic Republic. However, the provisional government, led by Medhi Bazargan and other liberal civilians, was unable to exercise control; revolutionary groups made indiscriminate arrests and summary executions of political opponents. Increasingly, radical clerics sought to take power for themselves. The crisis atmosphere was intensified by the seizure, on 4 November 1979, of 53 US hostages (50 of them in the US embassy compound in Tehran) by militant Iranian students who demanded the return of the shah from the United States (where he was receiving medical treatment) to stand trial in Iran. Despite vigorous protests by the US government, which froze Iranian assets in the United States, and by the UN over this violation of diplomatic immunity, the hostages were held for 444 days; in the intervening period, a US attempt to free the hostages by military force failed, and the shah died in Egypt on 27 July 1980. The crisis was finally resolved on 20 January 1981, in an agreement providing for release of the prisoners and the unfreezing of Iranian assets. A new constitution providing for an Islamic theocracy was ratified by popular referendum in December 1979. In presidential elections in January 1980, 'Abolhassan Bani-Sadr, a moderate who supported the revolution, was elected president. Later elections to the Majlis resulted in victory for the hard-line clerical Islamic Republican Party (IRP).

In June 1981, President Bani-Sadr was ousted by Khomeini; later that month, a bomb explosion at IRP headquarters in Tehran killed Ayatollah Beheshti, who had been serving as chief justice, as well as 4 cabinet ministers, 20 paramilitary deputies, and dozens of others. Another bombing, on 30 August, killed the new president, Muhammad 'Ali Rajai, and his new prime minister, Muhammad Javad Bahonar. The bombings were ascribed by the government to leftist guerrillas. By 1982, at least 4,500 people had been killed in political violence, and some estimates placed the total much higher. In September 1982, Sadegh Ghotbzadeh, who had been foreign minister during the hostage crisis, was executed on charges of plotting to kill Khomeini and establish a secular government.

Iraq, meanwhile, had taken advantage of Iran's political chaos and economic disorder to revive a border dispute that had been settled in 1975 when Iranian and Iraqi representatives reached agreement on the demarcation of their frontiers and Iran ended its support for rebellious Kurds, who were then defeated by the Iraqi army. Full-scale war erupted in September 1980, when Iraq demanded sovereignty over the entire Shatt al-'Arab waterway. Iraqi forces invaded Khuzistan in the southwest, and captured the town of Khorramshahr and the oil refinery center of Abadan. The Iranian army, decimated by the revolution, was slow to mobilize, but by June 1982 it had driven Iraqi soldiers out of Abadan and Khorramshahr and from all undisputed Iranian territory. Iran then launched its own offensive, invading Iraq and thrusting toward Basra, but failed to make significant gains. At this point the land war became stalemated, with Iranian and Iraqi troops setting up an elaborate system of trenches. In 1983, Iraq broadened the war zone to include oil-tanker traffic in the northern Persian Gulf.

The Iraqis first attacked Iranian oil installations, disrupting, but not stopping, oil exports from the main oil terminal at Kharg Island. In mid-1983, Iraq took delivery of French jets bearing Exocet missiles. Iran responded that it would close the Strait of Hormuz if Iraq used the missiles. The United States declared the strait a vital interest and said it would use military force to keep the strait open because of the large volume of oil that passed through it on the way to the West. During 1983, the Iraqis also began to attack civilian targets in Iran with long-range missiles. The attacks caused heavy casualties, and Iran responded by shelling Iraqi border cities. In 1984, Iran began to attack Arab shipping in the Persian Gulf.

Iranian forces staged a surprisingly effective attack on Iraqi forces in the Fao Peninsula in February 1986. The Iranians now controlled all of Iraq's border on the Persian Gulf and were in reach of the major Iraqi city of Basra. In April, Khomeini renewed his demands for an end to the war: Iraqi President Saddam Hussein must step down, and Iraq must admit responsibility and pay war reparations. Iran rejected all demands for a cease-fire and negotiations until its demands were met.

In November 1986, it was revealed that US National Security Adviser Robert McFarlane had secretly traveled to Iran to meet with government leaders. The United States supplied Iran with an estimated \$30 million in spare parts and anti-aircraft missiles in hopes that Iran would exert pressure on terrorist groups in Lebanon to release American hostages. In the wake of this affair, Iran in 1987 attacked Kuwaiti oil tankers reregistered as American tankers and laid mines in the Persian Gulf to disrupt oil tanker shipping. The United States responded by stationing a naval task force in the region and attacking Iranian patrol boats and oil-loading platforms and accidentally shot down a civilian passenger jet.

As the war continued to take a heavy toll in casualties and destruction and economic hardships persisted on the home front, the clerics maintained firm control through repression and Khomeini's charismatic hold over the people. In 1988, Iran finally yielded to terms for a cease-fire in the war. On 3 June 1989, a few months after calling for the death of novelist Salman Rushdie for blasphemy, Khomeini died of a heart attack. Over 3 million people attended his funeral. He was succeeded as the country's spiritual guide by President Ali Khamenei. On 28 July 1989, speaker of the parliament Ali Akbar Rafsanjani, a moderate, was elected president with 95% of the vote. Iran remained neutral during the Gulf War, receiving (and retaining) Iraqi planes that were flown across the border for safekeeping. Iran also accepted thousands of Kurdish refugees from Iraq to add to its heavy burden of Afghan refugees from the civil strife in that country. Inflation, shortages, and unemployment—the products of revolution, war, and mismanagement—continue to generate widespread popular discontent, fueled also by dissatisfaction with the closed and repressive political system.

President Rafsanjani was reelected by a significantly smaller margin in 1993 but continued to press for free-market economic reforms. Rising prices in the wake of decreased government economic subsidies led to civil unrest in 1994 and 1995. Clerical conservatives led by Khamenei continued to battle the political moderates for dominance in the 1996 parliamentary elections, without a decisive victory for either side. Then, in the presidential election of May 1997, a moderate cleric, Muhammed Khatami, who favored economic reform, a more conciliatory foreign-policy stance, and less rigid clerical control of the government, won over two-thirds of the vote. In spite of continued opposition by Islamic conservatives, Khatami established a more tolerant climate in the country and expanded civil liberties. His policies received a decisive endorsement by the Iranian electorate when a political coalition led by the reformist president won 141 out of 290 parliamentary seats in the February 2000 elections and 189 seats in the May runoff elections, despite the shutdown of over a dozen liberal newspapers by conservative elements in the government in the weeks preceding the May polling. On 8 June 2001, Khatami won a landslide reelection victory, securing nearly 80% of the popular vote.

United States president George W. Bush, in his 29 January 2002 State of the Union address, labeled Iran—along with Iraq and North Korea—an “axis of evil,” responsible for seeking out weapons of mass destruction and supporting terrorists. Khatami, who has long advocated a more pro-Western stance, urged anti-US demonstrators to turn out in large numbers to protest the speech, as the speech had come as a surprise. Although Iran did not support the US-led military campaign in Afghanistan to oust

the Taliban regime in late 2001, it had expressed sympathy for the 11 September 2001 attacks on the United States, and stated that it would aid any US service personnel in need on Iranian territory during the war in Afghanistan. Iran called the United States “ungrateful” for Iran's help in forming a post-Taliban government in Afghanistan, as Iran played a key role at the Bonn conference in December 2001 that established Afghanistan's transitional government. Iran supported a greater role for the UN in Afghanistan, and pledged resources to help train an Afghan army. Iran is concerned with securing its border with Afghanistan, to prevent further destabilization of the region.

In January 2003, Iran urged Iraq to cooperate with UN resolutions requiring it to disarm itself of weapons of mass destruction, in an effort to avoid war. Iran took the position that the United States must not take unilateral military action in the dispute, and said that it would not participate or allow its territory to be used in any military action against Iraq. Iran was again outraged by US president George W. Bush's 28 January 2003 State of the Union address, in which he alleged once again that Iran was developing weapons of mass destruction and supported terrorism.

In recent years, a youth movement has formed representing people who reject the theocracy of Iran's hard-line clerics and the “Islamic democracy” of the reformers. Many seek to live in a state based on the rule of law where the clergy's rule is abolished. In November 2002, Hashem Aghajari, a history professor, was sentenced to death on charges of insulting Islam. He had given a speech in which he stated that each generation should re-interpret aspects of Islam rather than simply following religious leaders. Thousands of students protested against the ruling—the largest in three years. Supreme Leader Ayatollah Khamenei ordered a review of the sentence two weeks after the student protests began. However, the head of the judiciary, Ayatollah Mahmoud Hashemi Shahroudi, stated that normal legal procedures would be followed to reconsider the verdict. Those procedures required an appeal, which Aghajari refused. His lawyer in December issued an appeal, and as of 31 January 2003, the case had not been resolved.

### 13 GOVERNMENT

Before the 1979 revolution, Iran was an absolute monarchy, with the constitution of 1906 modified by a supplement of 1907 and amendments of 1925, 1949, and 1957. The shah was the chief of state, with sweeping powers. He commanded the armed forces, named the prime minister and all senior officials, and was empowered to dissolve either or both legislative houses. The legislative branch comprised the national assembly (Majlis) and the senate. Members of the Majlis were elected for four-year terms from 268 constituencies by adults 20 years of age and older. Half of the 60 senators were named by the shah, and half were elected. Members of the Majlis ostensibly represented all classes of the nation, while the somewhat more conservative Senate consisted of former cabinet ministers, former high officials, and retired generals.

The constitution of December 1979, which was approved in a public referendum and revised in 1989, established an Islamic republic in conformity with the principles of the Shi'a faith. Guidance of the republic is entrusted to the country's spiritual leader (*faqih*) or to a council of religious leaders. An appointed Council of Guardians consists of six religious leaders, who consider all legislation for conformity to Islamic principles, and six Muslim lawyers appointed by the supreme judicial council, who rule on limited questions of constitutionality. In accordance with the constitution, an 86-member Assembly of Experts chooses the country's spiritual leader and may nullify laws that do not conform to Islamic tenets. In 1998, seats on the council (which have eight-year terms) were opened for the first time to nonclerics.

The executive branch consists of a president and council of ministers. The president is elected by popular vote to a four-year term and supervises government administration. Candidates for the presidency and parliament must have the approval of Iran's spiritual leaders. As of 2003, the Majlis consisted of 290 members elected directly to four-year terms. Suffrage is universal for those over age 15.

There were more than 800 candidates for president in 2001, and the Council of Guardians narrowed them to 10. Khatami was the sole moderate, with all of the other candidates having ties to conservative or hard-line parties. On 8 June 2001, Khatami secured 77% of the popular vote, with four-fifths of 43 million eligible voters turning out.

## 14 POLITICAL PARTIES

During the reign of Reza Shah (1925–41), political parties were not permitted to function. After 1941, parties sprang up, but most of them were of an ephemeral nature. The Communist-oriented Tudeh (Masses) Party was better organized than the others and benefited from the services of devoted followers and foreign funds. In 1949, an unsuccessful attempt to assassinate the shah was traced to the Tudeh, and it was banned. It continued to work through front groups, and its views were reflected in some periodicals, but the organization was extinguished in the Shah's post-1953 crackdown.

In 1957, the government created facade political parties, the Nationalist (Mellioun) Party, headed by Manochehr Eqbal, then prime minister, and the People's (Mardom) Party, headed by former prime minister Asadullah Alam (the "loyal opposition"). Neither of these parties ever attracted any popular following. In 1975, the shah ordered the formation of a single political organization, the Iran Resurgence (Rastakhiz) Party, into which were merged all existing legal parties. Three cardinal principles were cited for membership in the party: faith in Iran's constitution, loyalty to the monarchical regime, and fidelity to the "white revolution." This party, like others before it, lacked a popular base.

After the overthrow of the shah's regime in February 1979, new political parties were formed, the most powerful being the Islamic Republic Party (IRP), which took control of the Majlis. However, power was wielded primarily by the military, the president, the clerical elite, and the heads of the banyads, autonomous financial organizations which have considerable power and which were formed from the confiscated wealth of the former royal family and its cronies.

Today Iran's parliament, or Majlis, is made up of various groups representing a spectrum of views ranging from hard-line radical Islam to moderates and liberals. Moderates generally hold less hostile views about the West while still believing in an Islamic republic. In 1997, a moderate politician, Mohammad Khatami, was elected president of Iran. The moderates scored a further triumph in the parliamentary elections of February and May 2000. A moderate reformist coalition headed by Khatami won 189 out of 290 seats in the Majlis, with radical Islamists winning 54, independents 42, and religious minority parties 5. The following organizations had success at the 2000 parliamentary elections: Assembly of the Followers of the Imam's Line, Freethinkers' Front, Islamic Iran Participation Front, Moderation and Development Party, Servants of Construction Party, and the Society of Self-sacrificing Devotees.

## 15 LOCAL GOVERNMENT

Iran is divided into 28 *ostans* (provinces), each headed by a governor-general; the governor-general and district officials of each province are appointed by the central government. The ostans are subdivided into *sharestans* (counties), which are in turn divided into *bakhsh* (districts). Each *bakhsh* consists of two or more *dehistsans*, which are composed of groups of villages or

hamlets. Each of the municipalities (*shahrdarys*) is headed by a mayor. Some sharestan officials are elected; others are appointed by Tehran.

## 16 JUDICIAL SYSTEM

The overthrow of the shah and the approval in 1980 of a constitution making Iran an Islamic state have radically changed Iran's judicial system. The 1980 constitution was revised in 1989.

In August 1982, the supreme court invalidated all previous laws that did not conform with the dictates of Islam, and all courts set up before the 1979 revolution were abolished in October 1982. An Islamic system of punishment, introduced in 1983, included flogging, stoning, and amputation for various crimes. There are two different court systems: civil courts and revolutionary courts.

The judicial system is under the authority of the religious leader (faqih). A supreme judicial council responsible to the faqih oversees the supreme court, which has 33 branches, each branch being presided over by two judges. The Ministry of Justice oversees law courts in the provinces.

The revolutionary courts try cases involving political offenses, narcotics trafficking and "crimes against God." Although the constitution guarantees a fair trial, the revolutionary courts provide almost no procedural safeguards. The trials in revolutionary courts are rarely held in public and there is no guarantee of access to an attorney.

Elements of the prerevolutionary judicial system continue to be applied in common criminal and civil cases. In these cases the right to a public trial and the benefit of counsel are generally respected. In 1995 the government began implementing a law authorizing judges to act as prosecutor and judge in the same case.

The constitution states that "reputation, life, property, (and) dwelling(s)" are protected from trespass except as "provided by law." However, in practice, security forces do not respect these provisions.

## 17 ARMED FORCES

In 2002, the total active armed forces of Iran numbered approximately 520,000 with reserves of 350,000. The army had 325,000 soldiers had four armored divisions and six infantry divisions. Their equipment included 1,565 main battle tanks and about 890 multiple rocket launchers. The air force had personnel numbering 52,000 and 306 combat aircraft. The navy of 18,000 had 3 frigates, 6 submarines, and 56 smaller patrol and coastal combatants. The Revolutionary Guards unit (Pasdaran) had an estimated 125,000-man army and 20,000 sailors and marines. The paramilitary had 40,000 active members of law enforcement forces including border guards. There was a reserve of the Popular Mobilization Army of around 300,000 peacetime volunteers, mostly youths. This number can swell up to 1,000,000. It is believed that Iran is developing the capability of producing nuclear weapons. The official military budget in 2000 was \$9.7 billion or 3.1% of GDP.

## 18 INTERNATIONAL COOPERATION

Iran is a charter member of the UN, having joined on 24 October 1945, and belongs to ESCAP and all the nonregional specialized agencies. Iran is also a member of G-77 and a signatory to the Law of the Sea. It is a founding member of OPEC and a leading supporter of higher petroleum prices. In 1979, Iran withdrew from CENTO, causing its demise.

Iran's revolutionary government has aligned itself with the radical Arab states of Libya and Syria, which were the only Arab countries to support Iran in its war with Iraq. Since before 1979, Iranian foreign policy has been to curtail superpower influence in the Persian Gulf area. It also encourages the Islamization of the



governments throughout the Middle East, in such countries as Sudan, Algeria, Bahrain and Saudi Arabia.

## 19 ECONOMY

A country with a substantial economic potential, Iran witnessed rapid economic growth during the reign of Shah Muhammad Reza Pahlavi. Development of its extensive agricultural, mineral, and power resources was financed through oil revenues. The traditional land tenure system, under which farmers were sharecroppers, was replaced through a land reform program inaugurated in 1962. In addition to carpets, Iran produced a variety of consumer goods and building materials. Oil, however, became the lifeblood of the economy. With the astonishing growth of its oil revenues, Iran became a major world economic power, whose investments helped several industrialized countries pay for their oil needs during the 1970s.

The economy changed drastically after 1979. The war with Iraq, which curtailed oil exports, coupled with the decrease in the price of oil, especially in 1986, sent oil revenues spiraling downward from \$20.5 billion in 1979 to an estimated \$5.3 billion in 1986. This forced annual GDP growth down from 15.2% in 1982 to 0.2% in 1984; GDP was estimated to have fallen by 8% in 1986. The war's drain on the state budget, the drop in oil prices, poor economic management, declining agricultural output, an estimated 1987 inflation rate of 30–50%, and large budget deficits combined to put enormous strains on the economy.

After Iran accepted a UN cease-fire resolution in 1988, it began reforming the economy with the implementation of the Islamic republic's first five-year social and economic development plan for the years 1989–1994. The plan emphasized revitalizing market mechanisms, deregulating the economy, and rebuilding basic infrastructure. These reforms led to economic growth and lowered budget deficits. GDP grew an average 7% a year in real terms over 1989–92. The general government deficit was reduced from 9% of GDP in 1988 to an estimated 2% in 1992. The inflation rate decreased from 29% in 1988 to around 10% in 1990, but had redoubled to 20% in 1991 and 1992.

Other impacts of the first plan included a growth in agricultural production of 5.6%; industrial production of 15%; water, gas and electricity of 18.9%; and transport of 11.9%. In 1991, the government adapted a structural adjustment program similar in nature to the kind the IMF imposes on developing nations in exchange for aid. Iran, however, did not need aid, but rather imposed the adjustments on itself in an effort to liberalize its economy, making it more market-oriented while still retaining an authoritarian regime. The structural adjustments advocated by then-president Rafsanjani included privatizations of state-owned enterprises, deregulation, cutting government subsidies, and encouraging foreign investment. While marginally well-intentioned, the Rafsanjani reforms have led to little economic improvement. Privatization was especially ineffective. Political corruption and rampant cronyism led to many enterprises ending up in the hands of a small clique of well-connected elites. By 1997, 86% of Iran's GDP came from state-owned businesses. Deregulation has also hit considerable snags. In 1996 alone, more than 250 regulations on imports and exports were issued by 24 ministries—many of them repetitive or contradictory.

In April of 1995, the United States imposed trade and investment sanctions against Iran, in reprisal for what the United States believed was Iran's continued support of international terrorism. This move, unduplicated even by the US's strongest allies, has had some economic impact—most notably a precipitous drop in the value of the rial, which the government was forced to prop up.

In 1994 the second five-year plan, running through 1999, was implemented. Its priorities were completion of infrastructure and development projects and an increase in social spending. By

1996, Iran's economy was growing rather steadily at about 4.2%. Inflation, however, continued to be a problem. In 1995 it was above 50% but by the next year it had been brought somewhat under control, having been cut nearly in half to 27%. In 1998, the inflation rate was reported at 24%, and the unemployment rate was at 30%. Annual GDP growth occurred at a rate of 4.7% between 1988 and 1998, but fell to 1.7% in 1998 alone, and was at 2.3% in 1999. The third five-year plan, implemented from 2000 to 2005, was to privatize at least six major state-owned enterprises such as communications and tobacco, and at least 2,000 smaller state-owned firms.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Iran's gross domestic product (GDP) was estimated at \$456 billion. The per capita GDP was estimated at \$7,000. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2002 was 17.3%. 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 19% of GDP, industry 26%, and services 55%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$320 million. Worker remittances in 2001 totaled \$326.4 million. Foreign aid receipts amounted to about \$2 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$964. 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 20% of household consumption was spent on food, 32% on fuel, 12% on health care, and 8% on education. It was estimated that in 1996 about 53% of the population had incomes below the poverty line.

## 21 LABOR

The total labor force was estimated at 18 million in 1998. In 2001, 30% of the employed workforce was in agriculture, 25% was in industry, and 45% was in the service industry. As of 1999, unemployment stood at 14%.

The labor code grants workers the right to form and join their own organizations, however, the government-controlled Workers' House is the only authorized national labor organization. The Workers' House controls all workers according to government objectives. Strikes are not permitted. Islamic principles and dress are strictly observed at work with transgressions subjecting the worker to penalties. Workers cannot bargain collectively.

The Labor Law forbids employment of minors under 15 years of age, but these regulations are not enforced. Forced and bonded labor by children remains a serious problem. In 1997, the minimum wage was \$2.80 per day. Many middle class citizens work several jobs to support their families. The Labor Code stipulates a six-day, 48-hour workweek, with one rest day.

## 22 AGRICULTURE

Of Iran's total area, 11% is cultivated, 27% consists of permanent pastures, and 7% is forest and woodland. The remaining 55% consists of wasteland, lakes, mountains, desert, and urban areas. About one-third of the labor force is employed in agriculture. In 1998, the total land area under cultivation was estimated at 18.4 million hectares (45.5 million acres).

Progress in Iranian agriculture was greatly stimulated by the land reform of 1962–63, under which 4,025,680 farmers and their family members had taken title to their land by 1975, after the old land tenure system was abolished. However, with a

rapidly increasing population and a sharply rising standard of living, Iran is no longer self-sufficient in its agricultural production, and food imports have risen steadily in recent years.

In 1999, Iranian agricultural production (in thousands of tons) included wheat, 8,687; sugar beets, 4,987; barley, 1,919; rice, 2,300; grapes, 2,315; apples, 1,944; oranges, 1,749; dates, 918; cotton, 141; tea, 60; and tobacco, 23. Almonds and pistachios are grown primarily for export. In 1999, Iran was the largest producer of pistachios in the world (200,000 tons, or 54% of global production), and the fourth largest producer of almonds (after the United States, Spain and Italy), at 112,000 tons.

As of 1998, some 7.56 million hectares (18.68 million acres) were under irrigation. The fifth development plan (1973–78) envisaged an overall increase of 5.5% in agricultural production, but the revised plan raised the target to 8% annually, rescheduled allocations over six years instead of five, and slowed down the projects. Under the revolutionary government's first five-year plan (1983–88), agriculture was to receive 15.5% of total allocations, with food self-sufficiency the primary objective. However, because of the war with Iraq, planned expenditures were never attained. Moreover, food self-sufficiency still remains only a goal: imports of agricultural products exceeded exports by nearly \$1.5 billion in 2001.

### 23 ANIMAL HUSBANDRY

Not only is animal husbandry the major occupation of nomadic and seminomadic tribes scattered over Iran, but each farming village also keeps flocks that graze on the less productive areas. In 2001 there were 53,900,000 sheep, 25,757,000 goats, 8,500,000 head of cattle, 507,000 water buffalo, 145,600 camels, and 280,000,000 chickens. Cattle are raised as draft animals and for milk and are not fattened for beef. Sheep produce many staple items: milk and butter, animal fat for cooking, meat, wool for carpet making, and skins and hides. Poor weather during the 1970s sharply reduced the domestic flocks, and Iran became an importer of wool. The output of animal products has not kept pace with population growth.

### 24 FISHING

The Caspian Sea provides a seemingly inexhaustible source of sturgeon, salmon, and other species of fish, some of which spawn in the chilly streams that flow into this sea from the high Elburz Mountains. In 2000, the total fish catch was 411,500 tons. Caviar of unrivaled quality is produced by the Iranian Fisheries Co., formerly a joint Russo-Iranian venture but now wholly owned by the government of Iran. About 200,000 kg of caviar are sold per year, most of which is exported, providing a substantial share of the world's supply. Exports of fish products in 2000 amounted to nearly \$50 million. The fishing grounds of the Persian Gulf were long neglected, but during the 1970s new fishing fleets and packing and conserving facilities were established. The Iran-Iraq war and consequent environmental damage retarded the development of fisheries in this region. Total marine catch has more than doubled from 1982–84 levels.

### 25 FORESTRY

About 7.3 million hectares (18 million acres) were covered by forest in 2000. An estimated 1.1 million cu m (39 million cu ft) of roundwood were produced in 2000; about 5% was used for fuel. Along the northern slopes of the Elburz Mountains from near sea level to an altitude of about 2,100 m (7,000 ft) are dense stands of oak, ash, elm, beech, ironwood, cypress, walnut, and a number of other varieties. The high plateau forests of Fars, Kurdistan, Luristan, and Khorasan comprise sparse stands of scrub oak, ash, maple, cedar, wild almond, and pistachio. Date palms, acacias, and tamarisks grow in the Persian Gulf area. The deciduous forests on the Caspian littoral are among the best in the world. The timber industry is controlled by the government; its potential

annual capacity is 3 million cu m (106 million cu ft). In 2000, forest plantations covered 2,284,000 ha (5,643,000 acres). Imports of forest products totaled \$479.6 million in 2000.

A forest ranger school was started in 1957 as an extension of the government's forest service. In 1963, a forestry college was established at Karaj, west of Tehran, to train forestry engineers.

### 26 MINING

Iran possessed extensive and varied mineral resources. Iran was the third-largest producer of gypsum, had the second-largest natural gas reserves and the fifth-largest crude oil reserves, and was the fourth-largest producer of petroleum, which contributed 85% of export earnings in 2002. Of Iran's 2,700 mines, most were privately owned and 2,000 were active, producing 42 minerals—65% produced building and construction materials, and 20% were stone quarries. The mining sector accounted for 24% of Iran's industrial output of \$15.4 billion, and mineral and metal exports amounted to \$645 million. Mineral exports included chromite, refined sulfur, lead, zinc, copper, and decorative stone. Iron, steel, and chemicals were leading export commodities. The petroleum and petrochemicals industries were the top industries in 2002, and the production of cement and other construction materials ranked fourth.

Production of gypsum in 2000 (from the Semnan region, east of Tehran) was 11 million tons, up from 8.57 in 1996; iron ore and concentrate, 5.4 million tons (6.3 in 1997 and 4.8 in 1996); copper ore and concentrate (metal content), 258,000 tons (269,000 in 1999 and 228,000 in 1996); bauxite (gross weight), 400,000 tons (912,451 in 1999 and 150,000 in 1997); chromite concentrate (metal content), 137,000 tons, up from 63,800 in 1996; lead concentrate, 15,000 tons, down from 18,200 in 1997 (most of the lead and zinc was produced from the Angouran, Iranhoh, and Kushk mines); zinc, 85,000 tons, up from 76,500 in 1997; manganese, 32,000 tons; molybdenum, 1,600 tons, up from 600 in 1997; sulfur, 1.35 million tons, up from 900,000 in 1997; and marble (blocks, crushed, and slabs), 7.66 million tons, up from 5 million tons in 1997 (the Tangeh Hanna E Nyriz Mine, in Fars, had an 8 million ton per year capacity). Iran also produced orpiment and realgar arsenic concentrates, gold (most as a coproduct of the Sar Cheshmeh copper complex operations), silver, asbestos, barite, borax, hydraulic cement, clays (bentonite, industrial, and kaolin), diatomite, feldspar, fluorspar, turquoise, industrial or glass sand (quartzite and silica), lime, magnesite, nitrogen (of ammonia and urea), perlite, natural ochre and iron oxide mineral pigments, pumice and related volcanic materials, salt, caustic soda, stone (including granite, marble, travertine, dolomite, and limestone), celestite strontium, natural sulfates (aluminum potassium sulfate and sodium sulfate), and talc. Iran also may have produced ferromanganese, ferromolybdenum, nepheline syenite, phosphate rock, selenium, shell, vermiculite, and zeolite, and had the capacity to mine onyx.

Major iron and copper deposits were found in Kerman Province, and Iran also had deposits of antimony and mica. There was new exploration for copper, gold, and zinc in Zarshuran; for gold on the northwestern Agh Darreh prospect and in Baluchestan; and for copper in the northeastern Halak Abad prospect, the northwestern Hazy Kandy prospect, and in the Sistan-va-Baluchestan Province. An evaluation was being conducted of the porphyry copper deposit of Jabal-Barez region, in Hormozgan Province.

In 2000, the government merged the Ministry of Mines and Metals and the Ministry of Industry to form the Ministry of Industry and Mines. For its third five-year economic development plan (2000–2005), the government proposed to privatize 40 mineral industry companies affiliated with the Ministry of Industry and Mines, having already divested itself of numerous smaller mineral enterprises. Since 1998, the government has allowed foreign investment in solid mineral exploration joint

ventures, and, in 1999, showcased 102 mining and mineral-processing projects at the First International Mines and Metals Investment Forum. There was also anticipation that the United States government, having eased restrictions on the sale of Iranian products, might allow its Iran and Libya Sanctions Act of 1996 to lapse in 2001, thus permitting additional investment in Iran's minerals sector. The Iranian constitution prohibited foreign control over natural resources. To diversify and expand the economy in the wake of declining oil prices in the late 1990s, the government sought to increase metal production.

## 27 ENERGY AND POWER

Iran's oil reserves, estimated at 89.7 billion barrels at the start of 2002, constituted 9% of the world's known reserves and were exceeded only by those of Saudi Arabia, Iraq, the United Arab Emirates, and Kuwait. Iran was the second-largest oil producer among Organization of the Petroleum Exporting Countries (OPEC) countries in 1999.

The first oil concessions were granted by government of Iran (then Persia) in 1872 and 1901, and the first recorded crude oil production began in 1913. Production was carried out by the Anglo-Iranian Oil Co. until the petroleum industry was nationalized in 1951, when the country's oil resources were placed under the management of the National Iranian Oil Co. (NIOC). Late in 1954, active oil properties and facilities were awarded to a consortium of eight foreign companies, later joined by nine others, with US, British, Dutch, and French interests represented. The following year, a joint Italo-Iranian exploration and production company (SIRIP) was formed. The Pan American Oil Co. acquired concession rights in the Persian Gulf in 1958, joining with the NIOC in a new mixed company, IPAC. By 1962, both SIRIP and IPAC were producing from wells in the Persian Gulf. Additional fields were explored, and production grew rapidly.

During the early 1970s, tremendous changes took place in the Iranian oil industry. The 1954 oil participation agreement was terminated, and on 31 July 1973 a new agreement was signed that replaced the concessionary arrangements with a buyer-seller relationship, the major Western oil companies agreeing to purchase crude petroleum under long-term contracts with the NIOC, which was given full control over the industry. In 1980, the revolutionary government ended joint-venture operations with Western oil companies and regrouped them under the Iranian Offshore Oil Co. of the Islamic Republic.

Meanwhile, largely through the concerted action of OPEC, world oil prices rose rapidly; the posted price of Iranian light crude oil increased from \$1.36 a barrel in 1970 to \$37 in 1981 before declining to \$12.75 a barrel in 1989. The Gulf War caused prices to jump to \$23.65 a barrel in 1991; by 1993, the price had declined to \$16.70. In order to stabilize the price of oil, OPEC imposed quotas on its members. Iran consistently criticized the quota system and asked for a larger quota. Despite an OPEC-imposed production ceiling for Iran of 3,359,000 barrels per day (a 9% reduction agreed to in February 1992), petroleum production reached 3,705,000 barrels per day in 1995. However, daily production fluctuated by as much as 350,000 barrels. In 2001, production was 3.8 million barrels per day. More than half of Iran's 40 producing fields contain over 1 billion barrels of oil. Most of the reserves are located in onshore fields in the Khuzestan region. The onshore Ahwaz, Marun, Gachsaran, Agha Jari, Bibi Hakimeh, and Pars fields alone account for half of annual oil production. In 1999 Iran announced its largest oil discovery in 30 years, at the Azadegan field in Khuzestan. It is thought to have reserves totaling as much as 24 billion barrels. Oil revenues rose from \$5.1 billion in 1986 to an estimated \$16.4 billion in 2002, when they accounted for about 90% of total export revenues.

In early 2002, Iran's natural gas reserves were estimated at 22.9 trillion cu m (812 trillion cu ft), or 15% of the world's total reserves. Only Russia possesses larger natural gas reserves. Iran's output declined from 19,869 million cu m in 1973 to 7,300 million cu m in 1982 before climbing back to 59,400 million cu m in 2000. More than one-quarter of Iran's natural gas reserves have been discovered since 1992. Exploitation of natural gas is controlled by the National Iranian Gas Co. In the mid-1990s, Iran began developing extensive gas export plans. Inside Iran, a network of pipelines connects Tehran, Qazvin, Esfahan, Abadan, Shiraz, and Mashhad to Ahvaz and the gas fields. In 1995, Iran played an important role in regional talks concerning the construction of a 3,200 km (2,000 mi) pipeline that would carry gas from Turkmenistan to European markets via Iran, Turkey, and possibly Ukraine. Also in 1995, Iran and Pakistan signed an agreement to ship up to 450 million cu m per day via a 1,600 km (1,000 mi) overland pipeline to Pakistan. At the end of 2001, Iran signed an agreement to build a pipeline to natural transmit gas to Azerbaijan from Khoi in the northwestern part of the country.

Although Iran is one of the world's leading oil-producing countries, Iranian industry formerly depended on other energy sources, such as electricity, coal, and charcoal. Recently, however, oil and especially gas have been used increasingly in manufacturing. In 2000, hydroelectric power plants generated about 6% and conventional thermal facilities 94% of the total electricity production of 114.3 billion kWh. Consumption of electricity in 2000 was 111.9 billion kWh. Iran plans to construct ten nuclear power plants by 2015 in order to provide about 20% of the country's power needs. As of 2000, there were five small nuclear reactors in operation.

## 28 INDUSTRY

Principal industries are oil refining, petrochemicals, steel, and copper. In 1987, there were six primary refineries—at Abadan, Bakhtaran, Tehran, Shiraz, Esfahan, and Tabriz—with a potential capacity of 950,000 barrels per day. In late 1980, Iraqi bombing forced the closure of the Abadan refinery, which had a total capacity of 600,000 barrels per day and was one of the world's largest refineries. Several other refineries suffered lesser damage during the war. The Kharg Island oil terminal also was severely damaged by bombing in 1985. Construction by a Japanese consortium of a \$4-billion petrochemical complex at Bandar-e Khomeini, near the Iraqi border, was halted by the war; by mid-1983, the installation, which was 85% complete, had already been attacked six times. In September 1984, the Japanese withdrew their technicians from the site because of renewed Iraqi bombing. Iran has taken on much of the financial responsibility for the plant, and the ending of all payments of Japanese credits and loans in February 1986 most likely meant that the plant would never be completed according to the original plans. After the ceasefire in 1988, Iran began to rebuild its damaged oil export facilities, concentrating mainly on the rehabilitation of Kharg Island. A 500,000-barrel reservoir terminal at Uhang Island was put into operation in March 1993. The oil complex on the southern island of Lavan was reopened after reconstruction at the end of April 1993. The Abadan refinery became again operational at 200,000 barrels per day in May 1993. Isfahan's oil production unit became operational in 1992/93, while the construction of a new refinery at Bandar Abbas was underway. Major refinery products are motor fuel, distillate fuel oil, and residual fuel oil. Oil refining manufacturers had a combined capacity of 1.47 million barrels per day in 2000.

The natural gas industry has boomed in Iran, with the third-largest proven reserves in the world. In 1990, the site was appraised at one-eighth of its true size, which was discovered in 1996. In 1998, Iran produced 1.9 trillion cubic feet of natural gas.

The Abadan plant for the production of plastics, detergents, and caustic soda was completed in the 1960s. Since then, the petrochemical industry has expanded considerably. It has been the main element of the post-war industrialization program. The heavy metals industry began in 1972 with the start of steel production at Esfahan National Steel Mill in Esfahan. It was also given priority by the Rafsanjani government. Manufactured goods include diesel engines, motor vehicles, television sets, refrigerators, washing machines, and other consumer items.

The textile industry has prospered in recent years with increased production of cotton, woolen, and synthetic fabrics. The making of handwoven carpets is a traditional industry in Iran that flourishes despite acute competition from machine-made products. However, carpet exports declined throughout the war years. To promote self-sufficiency, Iran has encouraged development of the food-processing, shoemaking, paper and paper products, rubber, pharmaceutical, aircraft, and shipbuilding industries. Other industrial products include cement, nitrogenous fertilizer, phosphate fertilizers, and refined sugar.

Iran's industrialization program was set back by the political turmoil and labor disruptions of the late 1970s and by the revolutionary government's nationalization of industries in the summer of 1979, causing a flight of capital and trained managers. However, the sector recovered somewhat by 1983/84, when industrial production registered a 23% gain, according to the government.

A more recent development plan (1989/90–1993/94) has increased funding to develop heavy industry. A privatization decree in June 1991 led to the identification of 390 public manufacturing and trading firms for divestiture; of these, 185 were already been divested. Industrial production grew at a rate of 5.3% from 1988 to 1998, as opposed to a -3.4% rate during the 1970s. Market reforms were set to continue after 2000.

## 29 SCIENCE AND TECHNOLOGY

The "white revolution" of the 1960s, which emphasized industrialization, involved the importation of petroleum technology and the training of Iranian technicians abroad, but it did not improve Iran's indigenous technology. The principal scientific institution in Tehran is the International Scientific Research Institute, founded in 1955. Specialized learning societies include the Iranian Mathematical Society and the Iranian Society of Microbiology, both headquartered in Tehran. Also in the city are the Animal Husbandry Research Institute and the Institut Pasteur. Iran has 37 universities offering degrees in basic and applied sciences. Following the removal of the Shah and the formation of an Islamic revolutionary government, Iran suffered a "brain drain" as foreign-trained scientists and engineers either fled the country or refused to return after their education. In 1987–97, science and engineering students accounted for 37% of college and university enrollments.

## 30 DOMESTIC TRADE

Outside the major cities, most goods are sold in small shops or open-air markets. Most large enterprises are controlled by the state. Privately owned shops for trade and services are typically small. Textile industries are located in Esfahan and Shiraz. Kereman is known for production and distribution of fine carpets. Hamadan is an important trade center for agricultural products from the surrounding areas.

In summer, offices open as early as 7 AM and close at about 1 PM; during the rest of the year the hours are 8 AM until 4 PM, with a rest period in the middle of the day. Since Friday is the official holiday, many establishments close early on Thursday afternoon. Banking hours in summer are 7:30 AM to 1 PM and 5 to 7 PM, Saturday–Wednesday, and 7:30 to 11:30 AM on Thursday; winter opening times are 30 minutes to an hour later.

## 31 FOREIGN TRADE

In 2000, major imports included machinery, military supplies, metal works, food, pharmaceuticals, technical services, and refined oil products.

Iran's most expensive export is crude petroleum, which accounts for the majority of its commodity exports revenues (87%). Other exports include floor coverings (2.6%) and fruits and nuts (1.7%). Iran accounts for 10% of the world's carpet exports.

Figures for Iran's exports should not be considered entirely reliable. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Arab Emirates	409	1,008	209
Germany	370	1,391	-1,067
Turkey	198	232	-36
Italy	190	813	167
China (inc. Hong Kong)	180	634	-204
India	144	222	285
Japan	88	663	1,268
Russia	71	804	139
Spain	60	323	83
Canada	59	654	61

## 32 BALANCE OF PAYMENTS

Throughout the 1960s and 1970s, Iran had a favorable trade balance, but substantial imports of services resulted in an annual deficit on current accounts. Long-term capital inflows from private sources reached a peak in 1965; between 1968 and 1973, capital from foreign governments played a prime role in Iranian development. By 1974, with a net trade surplus of \$17,718 million and a current accounts surplus of \$10,893 million, Iran was one of the world's major exporters of capital. The current accounts balance remained in surplus annually until the massive economic and civic turbulence caused by the revolution of 1979 and the long, devastating war with Iraq (1980–88). By the time the war had ended, Iran's position as a net foreign creditor was badly eroded due to a substantial drop in the world price for oil and a sharp increase in dependence on imports—largely machinery and basic commodities to rebuild infrastructure. By 1993, Iran owed foreign creditors nearly \$30 billion. In following years, the government, still plagued by lessening oil revenues and a quota of production imposed on it by OPEC, was forced to reschedule the debt—with payments coming due in 1996, when foreign debt went down to approximately \$22 billion. Foreign debt stood at approximately \$8.2 billion in 2002. Increases in oil output in 2003 drove economic growth, but oil prices were forecast to decline in 2004, which would negatively affect the current account.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Iran's exports was \$24 billion while imports totaled \$19.6 billion resulting in a trade surplus of \$4.4 billion.

The International Monetary Fund (IMF) reports that in 2000 Iran had exports of goods totaling \$28.4 billion and imports totaling \$15.2 billion. The services credit totaled \$1.4 billion and debit \$2.3 billion. The following table summarizes Iran's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>12,645</b>
Balance on goods	13,138
Balance on services	-914
Balance on income	-200
Current transfers	621
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-10,189</b>
Direct investment abroad	...
Direct investment in Iran	39
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-8,257
Other investment liabilities	-1,971
<b>Net Errors and Omissions</b>	<b>-1,373</b>
<b>Reserves and Related Items</b>	<b>-1,083</b>

### 33 BANKING AND SECURITIES

The Iranian fiscal year begins on 21 March and runs through 20 March of the following calendar year. Before the modern era in Iranian banking, which dates to the opening of a branch of a British bank in 1888, credit was available only at high rates from noninstitutional lenders such as relatives, friends, wealthy landowners, and bazaar money lenders. As recently as 1988 these noninstitutional sources of credit were still available, particularly in the more isolated rural communities. The Central Bank of Iran-Bank Markazil-established by the Monetary and Banking Law of 1960, issues notes, controls foreign exchange, and supervises the banking sector.

The revolutionary government nationalized all commercial banks shortly after taking office in 1979 and announced that banking practices would be brought in line with Islamic principles, which include a ban on interest payments. By 1993 there were five Islamic banks, which had incorporated the previous banks. Instead of paying interest, the new banks give "guaranteed returns" or commissions on loans; the commissions, which equal 4% of the loan's total, were introduced in 1984, and were known as "profit sharing." In Islamic terms, this meant that profit (interest) was acceptable only if a lender's money was "not at risk."

In 1991 measures to promote competition between banks, and to loosen Bank Markazi's control in order to encourage savings within the official banking sector were introduced. In 1994 Bank Markazi introduced reforms allowing private banking operations to register officially and offer most services in competition with the public sector. However, the raft of new currency and export regulations that followed the collapse of the rial in April 1995 put the recently legalized private sector under huge pressure because, for many of the bazaar traders, currency dealings represented a significant share of their total business. There is a basic lack of confidence in the banking system. Many informal banking operations are run from the bazaars. In addition, Iranians who are able to do so operate bank accounts outside the country, importing funds as needed rather than using the domestic system.

Bank Melli, which has acted for the central bank, handles most Iranian banking operations outside the country. The requirements to abide by Islamic principles were never imposed on Bank Melli. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$71.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$153.6 billion.

The Tehran Stock Exchange, locally known as the Bourse, was created in 1968. Three years later, the National Bank of Iran and the Industrial and Mining Development Bank of Iran joined with the US firm of Merrill Lynch, Pierce, Fenner and Smith to begin international brokerage activities in Iran. The exchange has stayed open since the revolution but did not play a significant role in the nation's business until the 1990s. Since 1989, the stock

exchange has expanded continuously. A total of 344 companies were being traded and the capitalization of the exchange was reported to be nearly \$26 billion in mid-2003.

### 34 INSURANCE

The insurance industry in Iran had barely started in 1960, and had a negligible role in the accumulation of funds to finance development, largely because insurance was not used by most of the population. On 25 June 1979, the revolutionary government announced the nationalization of all insurance companies. Under a 1971 Act of Parliament, all companies operating in Iran must cede 25% of total acquired nonlife business, and 50% of life business, to Bimeh Markazi Iran, the Central Insurance Co. of Iran. The company writes all classes of insurance and reinsurance. In 2001, there was \$72 million of life insurance premiums written.

### 35 PUBLIC FINANCE

Iran's fiscal year coincides with its calendar year, beginning on 21 March. The budget is prepared by the Finance Ministry and submitted to Parliament. Trade reforms implemented since 1991 have boosted economic growth and reduced budget deficits. The general government deficit fell from 9% of GDP in 1988 to 2% in 1992, but was up to almost 7% again in 1998. By 2002, however, external debt was equivalent to less than 2% of GDP as a result of market reforms.

The US Central Intelligence Agency (CIA) estimates that in 2001 Iran's central government took in revenues of approximately \$24 billion and had expenditures of \$22 billion. Overall, the government registered a surplus of approximately \$2 billion. External debt totaled \$8.2 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>64.2%</b>	<b>15,410</b>
Tax revenue	4.0%	956
Non-tax revenue	58.7%	14,077
Capital revenue	1.6%	378
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>22,000</b>
General public services	4.0%	869
Defense	14.3%	3,154
Public order and safety	5.0%	1,110
Education	18.6%	4,091
Health	6.5%	1,429
Social security	16.5%	3,620
Housing and community amenities	5.8%	1,280
Recreation, cultural, and religious affairs	3.1%	678
Economic affairs and services	14.8%	3,245
Other expenditures	10.8%	2,383
Interest payments	0.6%	141

### 36 TAXATION

Under tax laws written in May of 1992, individual income is taxed at rates varying from 12–54%. Capital gains and investment income are also taxable, and employees pay a 7% social security contribution. Corporate income, which is also taxed at between 12% and 54%, varies among corporations, partnerships, and branches of foreign corporations. The taxable income of a company is subject to a 10% company tax, and the balance is subject to the income tax rates above. Also levied are real estate taxes, municipal tax, and a 23% levy on expatriate salaries. A new value-added tax of 1% of a manufacturing company's sales can be collected. Another tax is a public

education cost levy to be paid by manufacturing and service companies.

### 37 CUSTOMS AND DUTIES

Most goods entering Iran are subject to customs duties, the majority of which are on the CIF (cost, insurance, and freight) value. A number of government organizations and charitable institutions have been permitted to import their requirements free of duty. The government has been considering eliminating quantitative trade restrictions and reducing tariff levels, with a maximum rate of 30% for most goods. The average tariff was 6.1% in 2002 according to a World Bank study, down from 18.9% in 2000.

### 38 FOREIGN INVESTMENT

Until the early 1970s, Iran rarely participated in foreign businesses. The National Iranian Oil Company (NIOC) did invest in the construction of oil refineries in Madras, India, and other places, and it participated in several mixed ventures with foreign oil firms that held concessions for Iranian oil. But with the vast increase in oil revenues, Iran became one of the world's leading creditor nations; in 1974 alone, bilateral agreements worth hundreds of billions of rials were signed with France, West Germany, Italy, and the United Kingdom. In July 1974, Iran agreed to purchase a 25% interest in the German steel-making firm of Krupp Hüttenwerke, an investment believed to be the largest single stake purchased by any oil-producing nation in a major European firm up to that time. In 1975, Iran began negotiating investments through the UNDP in developing nations.

Prior to World War II, foreign companies had important investments in Iranian banks, insurance companies, transport, and the oil industry. In 1955, the legislature enacted a law providing for withdrawal of invested capital in the currency that was brought into Iran, for the export of annual profits, and for adequate compensation in the event of nationalization of the industry or business. In 1957, the United States and Iran exchanged notes recognizing that the United States would guarantee its private investments in Iran against loss through actions by Iran, and the following year the Majlis enacted a law protecting foreign capital investments. Foreign companies moved into Iran to exploit mineral resources, to establish banks in partnership with Iranian capital, to build factories, and to carry out segments of the shah's vast economic development program.

Since 1979, the instability of the revolutionary government and the catastrophic war with Iraq have had a chilling effect on western investment in Iran. As of 1995, the United States has imposed investment restrictions on US firms, and, in general, Iran looks with official disfavor on reliance upon the west for investment. The economic reality, however, is that the country emerged from the war with Iraq in terrible economic shape. In 1995, desperate for western assistance in rebuilding its oil sector, Iran contracted with the French Oil Company, Total, to develop its Sirri oil field. It is the first instance of foreign investment in the vital petroleum sector since the 1979 revolution. In 1995, Iran had negative direct foreign investment of about \$50 million, reflecting repatriation of profits greater than inflows of new investment. Foreign direct investment was almost non-existent in 1998.

### 39 ECONOMIC DEVELOPMENT

Iran's first development plan (1949–56) foundered because of the lack of oil revenues during the nationalization dispute and also because the IBRD refused to lend the hoped-for one-third of the projected development expenditures. The second plan (1956–63) also ran into financial difficulties when the domestic budget consumed a larger proportion of the oil revenues than expected. An austerity program from 1960, however, facilitated economic

recovery. The third plan (1963–68) was successful, and the period witnessed rapid economic growth. This plan placed emphasis not only on the building of an infrastructure but also on quick-payoff projects making use of local resources. The private sector exceeded the target planned for investment. Substantial foreign aid, varied in its sources, was also forthcoming, and foreign investment in Iran totaled more than \$2.7 billion. The fourth plan (1968–73) was far more successful than the previous ones, with most of its objectives realized beyond expectation. The mean annual GNP growth was 11.2%, as compared with the projected figure of 9%. Similarly, per capita GNP rose to about \$560 (\$300 had been the goal).

In its revised form, the fifth plan (1973–78) provided for infrastructural development and other expenditures. However, a lag in oil revenues led to rescheduling of the plan for six years instead of five and the postponement or slowdown of individual projects. Because of political opposition and social unrest during the last year of the shah's reign, the plan was abandoned in 1978. The Islamic government that came to power in 1979 cut economic development funds because of a shortage of revenues, but in 1983 it proposed its own five-year development plan for 1983–88, with allocations totaling \$166 billion and emphasis given to agriculture and service industries. However, the government's cutbacks on oil production (and, consequently, of the oil revenues that were to finance the plan), coupled with the diversion of resources to the war with Iraq, made it impossible to fulfill the plan's goals. The plan was revised twice after its introduction; in January 1986 the Parliament approved the outline of the revised plan, details of which were not available. The original plan called for 15.5% of development funds to be spent on agriculture, 5.3% on oil, 52.2% on industry and mines, and 27% on services.

The five-year plan (1989/90–1993/94) authorized up to \$27 billion in foreign borrowing. It aimed to increase productivity in key industrial and economic sectors and to promote the non-oil export sector. The 1994/95–1998/99 plan aimed at investing money in transport, particularly in the railroad system and in the construction of a public underground for Tehran. Other projects were aimed at revitalizing the petroleum sector and developing the natural gas sector.

### 40 SOCIAL DEVELOPMENT

Traditionally, the family and the tribe were supplemented by Islamic waqf (obligatory charity) institutions for the care of the infirm and the indigent. Iran's monarchical system was slow to awaken to the responsibility of the state in this respect. Social welfare programs include workers' compensation, disability benefits, maternity allowances, retirement benefits, death benefits, and family and marriage allowances. These programs cover only employed persons in specific occupations and geographical areas. There were also special pension systems in force for public employees. Old-age benefits were a percentage of average earnings multiplied by the number of years of contributions. Survivor benefits are 50% of the descendant's pension.

The human rights abuses that characterized the shah's regime were, if anything, intensified after his overthrow. The government rejected the principle of the universality of human rights, and argued that Islamic rather than Western precepts should be used in determining the rights of citizens. The revolutionary government was accused of conducting arbitrary arrests and summary trials, of using torture in interrogating political prisoners, and of persecuting such religious minorities as Baha'is and Jews.

The imposition of Islamic fundamentalism brought with it censorship of all media and a revocation, in large part, of the emancipation of women achieved during the previous regime. Women face legal and informal discrimination. Wearing of the

chador, the traditional cloak, was reimposed and vigorously enforced, together with gender separation in public places. Family and property laws favor men, women's testimony in court is worth half that of men. Muslim men may marry non-Muslim women, but Muslim women are not free to marry non-Muslim men. Women must receive the permission of their father or husband to obtain a passport. Domestic abuse and violence against women is not publicly discussed, and rape is a widespread problem.

The Jewish, Christian, and Baha'i minorities face government discrimination in areas including education, employment, public accommodations. They also suffer harassment and abuse.

Serious human rights abuses persist including summary execution, disappearance, torture, rape, stoning, flogging, arbitrary arrest and detention, and harsh prison conditions. In spite of the installation of more moderate leaders since the death of Ayatollah Khomeini, the Iranian government continues to restrict freedoms of speech, assembly, religion, association, and the press.

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

In 1999, there were 54 reported cases of tuberculosis per 100,000 people; one quarter of visits to health centers have been attributed to respiratory disease. Health expenditure comprised 4.2% of the gross domestic product as of 1999. Beginning in the 1960s, national campaigns against such major diseases as malaria and smallpox were undertaken. Other major health problems included high infant mortality, smallpox outbreaks, venereal disease, trachoma, typhoid fever, amoebic dysentery, malaria, tuberculosis, and the debilitating effects of smoking opium. The creation in 1964 of a health corps, consisting of physicians and high-school graduates who agreed to spend the period of their military service serving in semimobile medical units in rural areas, helped to reduce the death rate. Roving health corps teams, comprising a doctor, a dentist, a pathologist, and (when possible) a nurse, served the villages, offering medical services to 10,000–15,000 rural inhabitants annually. As of 2002, the death rate was estimated at 5.4 per 1,000 people. The infant mortality rate in 2000 was 33 per 1,000 live births.

The Islamic republic has continued to provide health care programs to rural areas. As of 1999, there were an estimated 0.9 physicians and 1.6 hospital beds per 1,000 people. In 1991, there were 4,847 dentists in Iran. Many physicians left the country after the 1979 revolution and health conditions were reportedly deteriorating; however, by the mid-1980s, many doctors who had been in exile during the shah's reign had returned. Between 1989–95, 80% of the population had access to health care services. As of 1999, total health care expenditure was estimated at 4.2% of GDP. Average life expectancy in 2000 was estimated at 69 years for both women and men. In 2000, 95% of the population had access to safe drinking water and 81% had adequate sanitation. Some form of contraceptive was used by 73% of married women ages 15–49 as of 2000. Iran's estimated birth rate in 2002 was 17.5 per 1,000 people. In 1994, children up to one year old were immunized against tuberculosis, 100%; diphtheria, pertussis, and tetanus, 95%; polio, 95%; and measles, 95%.

The prevalence of low birth weight babies has risen from 4% of all births in 1980 to 10% in 1999. As of 2000, 16% of all children were malnourished. Cholera was reported in 2,177 individuals. Malaria cases are high; in 1993 there were 65,000 reported cases. AIDS was documented in only seven cases. As of 1999, the prevalence of HIV was less than 0.01 per 100 adults.

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

Rapid urbanization and migration of refugees into the country have made housing one of the country's most acute social problems. Although housing has always been given top priority in development plans, the gap between supply and demand for

dwelling has grown increasingly wide. During the fourth plan (1968–73), nearly 300,000 housing units were built, but because some 120,000 new families were added to the urban population during that period, the average density rose from 7.7 to 8.5 persons per dwelling. During the same period, the national urban housing deficit rose from 721,000 to 1.1 million units. However, housing starts fell sharply after the 1979 revolution, as construction declined precipitously because of lack of funding (construction of all buildings dropped by 21% in 1981/82 and 24% in 1982/83).

in the Second Five-Year Development Plan (1995–2000), the government presented programs focused on attracting private sector investment and approving legal and economic measures that could result in the construction and availability of 2,500,000 housing units. As of 2003, data concerning the completion of these projects was unavailable to this publication.

According to 1996 national statistics, there were about 12,349,003 private households in permanent dwellings. About 38,940 households were listed as "unsettled," which is to say they were either homeless or nomadic.

In 1986 (the latest year for which such statistics are available), 43% of all housing units were constructed of brick with iron beams, 19% were adobe and wood, 16% were brick with wooden beams, 10% were adobe and mud, 5% were cement block, and 3% were iron with a cement skeleton. Electricity was available in 84% of all housing units, 95% had a water toilet, 75% had piped water, 54% had a kitchen, and 47% had a bath.

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

Literacy training has been a prime concern in Iran. For the year 2000, adult illiteracy rates were estimated at 23.1% (males, 16.3%; females, 30.0%). A literacy corps was established in 1963 to send educated conscripts to villages. During its first 10 years, the corps helped 2.2 million urban children and 600,000 adults become literate. In 1997, there were 9,238,393 pupils enrolled in 63,101 primary schools, with 298,755 teachers. The student-to-teacher ratio stood at 31 to 1. In that same year, secondary schools had 8,776,792 students and 280,309 teachers. The pupil-teacher ratio at the primary level was 26 to 1 in 1999. In the same year, 83% of primary-school-age children were enrolled in school. As of 1999, public expenditure on education was estimated at 4.6% of GDP.

Education is virtually free in Iran at all levels, from elementary school through university. At university level, however, every student is required to commit to serve the government for a number of years equivalent to those spent at the university. During the early 1970s, efforts were made to improve the educational system by updating school curricula, introducing modern textbooks, and training more efficient teachers.

The 1979 revolution continued the country's emphasis on education, but Khomeini's regime put its own stamp on the process. The most important change was the Islamization of the education system. All students were segregated by sex. In 1980, the Cultural Revolution Committee was formed to oversee the institution of Islamic values in education. An arm of the committee, the Center for Textbooks (composed mainly of clerics), produced 3,000 new college-level textbooks reflecting Islamic views by 1983. Teaching materials based on Islam were introduced into the primary grades within six months of the revolution.

The tradition of university education in Iran goes back to the early centuries of Islam. By the 20th century, however, the system had become antiquated and was remodeled along French lines. The country's 16 universities were closed after the 1979 revolution and were then reopened gradually between 1982 and 1983 under Islamic supervision.

While the universities were closed, the Cultural Revolution Committee investigated professors and teachers and dismissed

those who were believers in Marxism, liberalism, and other "imperialistic" ideologies. The universities reopened with Islamic curriculums. In 1997, all higher-level institutions had 40,477 teachers and enrolled 579,070 students. The University of Tehran (founded in 1934) has 10 faculties, including a department of Islamic theology. Other major universities are at Tabriz, Mashhad, Ahvaz, Shiraz, Esfahan, Kerman, Babol Sar, Rasht, and Orumiyeh. There are about 50 colleges and 40 technological institutes.

#### 44 LIBRARIES AND MUSEUMS

Public libraries and museums are fairly new in Iran. The National Library at Tehran has a good general collection of about 590,000 volumes as of 2002. The Library of Parliament, with 170,000 volumes, has an extensive collection of manuscripts and an unrivaled collection of documentary material in Farsi, including files of all important newspapers since the inception of the press in Iran. The Central Library of the University of Tehran holds some 650,000 volumes.

Tehran has the Archaeological Museum, overflowing with fabulous treasures from the long cultural and artistic history of Iran, and the Ethnological Museum. Iran's crown treasures—manuscripts, jeweled thrones, and a vast variety of other objects—may be seen at the Golestan Palace. Museums at Esfahan, Mashhad, Qom, and Shiraz feature antique carpets, painted pottery, illuminated manuscripts, and fine craftsmanship in wood and metal; most of these objects date from the 12th to the 18th centuries.

#### 45 MEDIA

Telegraph, telephone, and radio broadcasting services are state-owned. In 1997 there were 6.3 million telephone lines in service. In 1998, there were an additional 265,000 cellular phones in service. In 1996, 25 regional telecommunications authorities were formed to oversee paging services and cellular systems.

Both radio and television were nationalized in 1980. Principal stations are located in Tehran, and other major stations broadcast from Ahvaz, Zahedan, Tabriz, Rasht, Kermanshah, and Bandar-e Lengeh. As of 1999 there were 72 AM and 6 FM radio stations and 28 television broadcast stations. Television of Iran, a privately owned station, began broadcasting in 1956 in Tehran and Abadan. The national radio organization and the government television network were merged in 1971 to form National Iranian Radio and Television (NIRT). After 1979, it became the Islamic Republic of Iran Broadcasting Company. In 2000, Iran had 281 radios and 163 television sets for every 1,000 people. In 2001, there were 250,000 Internet subscribers served by eight service providers.

Until 1979, the local press operated under a law enacted by Parliament in 1955. To obtain licenses, newspaper owners had to have a B.A. degree, good character, and funds adequate for publishing for a stated period. Suspension of publication, fines, and imprisonment resulted from such violations of the law as printing false news or attacks on the royal family, revealing military secrets, and printing material injurious to Islam. At the time of the Khomeini revolution, Iran had 39 daily newspapers with a total circulation of about 750,000. The constitution of 1979 strictly limited freedom of the press; a new press law required publications to be licensed, and their editors were subject to imprisonment for printing reports the religious authorities deemed insulting. Newspapers that had favored the shah were closed down, and others considered unsympathetic to the ruling IRP were banned. In 1985, Khomeini stated "constructive" press criticism of the government would be allowed, but the government severely restricted all media, punishing all instances of criticism against the government or of Islam by imprisonment and beatings. As of 1999, there were reports of continuing government infringement on freedom of the

press. Among Iran's most widely read newspapers are *Ettela'at* (2002 circulation 500,000) and *Kayhan* (350,000). *Alik* (3,400) is an Armenian daily, *Journal de Teheran* (8,000) is in French, and *Teheran Times* (7,700) is in English. There are also several weeklies and special interest magazines. Most print media originate in Tehran.

#### 46 ORGANIZATIONS

Long renowned for their individualism, Iranians now actively associate with modern public and private organizations. Under the shah, the government greatly encouraged the growth of the cooperative movement; the first Workers' Consumers Society was established in 1948. Many villages have founded producers' cooperatives with official advice and support, and consumers' cooperatives exist among governmental employees and members of the larger industrial and service organizations. Rural cooperative societies are wide spread.

Private charitable organizations date from as early as 1923, when the Iranian Red Lion and Sun Society (corresponding to the Red Cross/Red Crescent) was established. Other charitable institutions include the Organization for Social Services and the Mother and Infant Protection Institute. The Islamic Women's institute is active. The Society to Combat the Use of Opium has waged a campaign against use of the drug. The Boy Scout movement in Iran began before World War II. The Chamber of Commerce, Industries, and Mines has its headquarters in Tehran.

#### 47 TOURISM, TRAVEL, AND RECREATION

Principal tourist attractions include historic and beautifully decorated mosques, mausoleums, and minarets. There are many sports and physical culture societies in Tehran and the provinces; emphasis is upon skiing and weight lifting.

Tourism, which had been stagnant since the 1979 revolution, has begun to grow since the death of Ayatollah Khomeini and the government's attempts to establish closer ties with the West. In 1999, 1,320,690 tourists visited Iran, over 50% from Europe. Tourism receipts totaled \$662 million. That year there were 22,321 hotel rooms with 46,826 beds.

According to 1999 UN estimates, the cost of staying in Iran was approximately \$142 per day.

#### 48 FAMOUS IRANIANS

The long history of Iran has witnessed many conquerors, wise rulers and statesmen, artists, poets, historians, and philosophers. In religion, there have been diverse figures. Zoroaster (Zarathushtra), who probably lived in the 6th century BC, founded the religion known as Zoroastrianism or Mazdaism, with Ahura-Mazda as the god of good. In the 3d century AD, Mani attempted a fusion of the tenets of Mazdaism, Judaism, and Christianity. The Bab (Sayyid 'Ali Muhammad of Shiraz, 1819–50) was the precursor of Baha'ism, founded by Baha' Allah (Mirza Husayn 'Ali Nuri, 1817–92).

Persian rulers of the pre-Christian era include Cyrus ("the Great"; Kurush, r.550–529 BC), Cambyses II (Kambuiya, r.529–522 BC), Darius I ("the Great"; Darayavaush, r.521–486 BC), Xerxes I ("the Great"; Khshayarsha, r.486–465 BC), and Artaxerxes I (Artakhshathra, r.464–424 BC). Shah 'Abbas (r.1587–1628) expanded Persian territory and conquered Baghdad. Prominent political figures of modern times are Reza Shah Pahlavi (1877–1944), who reigned from 1925 to his abdication in 1941; and his son, Muhammad Reza Pahlavi (1919–80), who was shah from 1941 until his abdication in 1979. Until his death in 1989, Iran was under the leadership of Ayatollah Ruhollah Khomeini (1900–89).

The great epic poet Firdawsī (Abdul Qasim Hassan ibn-i-Ishaq ibn-i Sharafshah, 940–1020), writing about AD 1000, produced the *Shahnama* (*Book of Kings*), dealing with four ancient dynasties and full of romantic and heroic tales that retain their



popularity today. Omar Khayyam (d.1123?), astronomer and poet, is known in the Western world for his *Rubáiyât*, a collection of quatrains freely translated by Edward Fitzgerald. Important figures of the Seljuk period (11th and 12th centuries) include Muhammad bin Muhammad al-Ghazali (1058–1111), philosopher and mystic theologian, who exerted an enormous influence upon all later speculative thought in Islam; Farid ad-Din ‘Attar (Muhammad bin Ibrahim, 1119–1229?), one of the greatest of mystic poets; and Nizami (Nizam ad-Din Abu Muhammad, 1141–1202), noted for four romantic epic poems that were copied and recopied by hand and illuminated with splendid miniatures. In the 13th century, Jalal ad-Din Rumi (1207–73) compiled his celebrated long mystic poem, the *Mathnavi*, in rhyming couplets; and Sa‘di (Muslih ud-Din, 1184?–1291), possibly the most renowned Iranian poet within or outside of Iran, composed his *Gulistan* (*Rose Garden*) and *Bustan* (*Orchard*). About a hundred years later, in 1389, another poet of Shiraz died, Hafiz (Shams ud-Din Muhammad); his collected works comprise nearly 700 poems, all of them ghazals or lyrical odes.

Poets of the modern period include Iraj Mirza (1880–1926), Mirzadeh Eshqi (d.1924), Parveen Ettasami (d.1941), and the poet laureate Behar (Malik ash-Shuara Bahar, d.1951). Preeminent among prose writers was Sadeq Hedayat (1903–51), author of the novel *Buf i kur* (*The Blind Owl*) and numerous other works, including films.

Miniature painting came to full flower in the second half of the 15th century. The greatest figure in this field was Bihzad, whose limited surviving work is highly prized. The School of Herat was composed of his followers.

#### 49 DEPENDENCIES

Iran has no territories or colonies.

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# IRAQ

Republic of Iraq  
*Al-Jumhuriyah al-'Iraqiyah*

**CAPITAL:** Baghdad

**FLAG:** The national flag is a tricolor of red, white, and black horizontal stripes, with three five-pointed stars in green in the center of the white stripe. In 1991 the phrase *Allahu Akbar* ("God is Great") in green Arabic script was added between the stars.

**ANTHEM:** *Al-Salaam al-Jumburi* (*Salute of the Republic*).

**MONETARY UNIT:** The Iraqi dinar (ID) is a paper currency of 1,000 fils. There are coins of 1, 5, 10, 25, 50, 100, and 250 fils, and notes of 250 and 500 fils and 1, 5, 10, 50, and 100 dinars. As of May 2003, 1ID = \$.0008547 (or \$1 = ID1,170) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but weights and measures in general use vary, especially in domestic transactions. The unit of land is the dunam, which is equivalent to approximately 0.25 hectare (0.62 acre).

**HOLIDAYS:** New Year's Day, 1 January; Army Day, 6 January; 14th Ramadan Revolution Day, 8 February; Declaration of the Republic, 14 July; and Peaceful Revolution Day, 17 July. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha', Milad an-Nabi, and Islamic New Year.

**TIME:** 3 PM = noon GMT.

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

Present-day Iraq, comprising an area of 437,072 sq km (168,754 sq mi), corresponds roughly to the former Turkish provinces of Baghdad, Mosul (Al-Mawsil), and Basra (Al-Basrah). Comparatively, the area occupied by Iraq is slightly more than twice the size of the state of Idaho. It extends 984 km (611 mi) SSE–NNW and 730 km (454 mi) ENE–WSW. Iraq is bordered on the N by Turkey, on the E by Iran, on the SE by the Persian Gulf and Kuwait, on the S by Saudi Arabia, on the W by Jordan, and on the NW by Syria, with a total land boundary length of 3,650 km (2,268 mi) and a coastline of 58 km (36 mi).

Iraq's capital city, Baghdad, is located in the east central part of the country.

## <sup>2</sup>TOPOGRAPHY

Iraq is divided into three distinct zones: the desert in the west and southwest; the plains; and the highlands in the northeast, which rise to 3,000 m (10,000 ft) or more. The desert is an upland region with altitudes of 600 to 900 m (2,000–3,000 ft) between Damascus in Syria and Ar-Rutbah in Iraq, but declines gently toward the Euphrates (Al-Furat) River. The water supply comes from wells and wadis that at times carry torrential floods and that retain the winter rains.

Dominated by the river systems of the Tigris (Dijlah) and Euphrates, the plains area is composed of two regions divided by a ridge, some 75 m (250 ft) above the flood plain, between Ar-Ramadi and a point south of Baghdad that marks the prehistoric coastline of the Persian Gulf. The lower valley, built up by the silt the two rivers carry, consists of marshland, crisscrossed by drainage channels. At Qarmat 'Ali, just above Basra, the two rivers combine and form the Shatt al-'Arab, a broad waterway separating Iraq and Iran. The sources of the Euphrates and Tigris are in the Armenian Plateau. The Euphrates receives its main tributaries before entering Iraq, while the Tigris receives several streams on the eastern bank within the country.

## <sup>3</sup>CLIMATE

Under the influence of the monsoons, Iraq in summer has a constant northwesterly wind (shamal), while in winter a strong southeasterly air current (sharqi) develops. The intensely hot and dry summers last from May to October, and during the hottest time of the day—often reaching 49°C (120°F) in the shade—people take refuge in underground shelters. Winters, lasting from December to March, are damp and comparatively cold, with temperatures averaging about 10°C (50°F). Spring and autumn are brief transition periods. Normally, no rain falls from the end of May to the end of September. With annual rainfall of less than 38 cm (15 in), agriculture is dependent on irrigation.

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

In the lower regions of the Euphrates and Tigris and in the alluvial plains, papyrus, lotus, and tall reeds form a thick underbrush; willow, poplar, and alder trees abound. On the upper and middle Euphrates, the licorice bush yields a juice that is extracted for commercial purposes; another bush growing wild in the semiarid steppe or desert yields gum tragacanth for pharmaceutical use. In the higher Zagros Mountains grows the valonia oak, the bark of which is used for tanning leather. About 30 million date palms produce one of Iraq's most important exports.

Wild animals include the hyena, jackal, fox, gazelle, antelope, jerboa, mole, porcupine, desert hare, and bat. Beaver, wild ass, and ostrich are rare. Wild ducks, geese, and partridge are the game birds. Vultures, owls, and ravens live near the Euphrates. Falcons are trained for hunting.

## <sup>5</sup>ENVIRONMENT

The major sources of environmental damage are effluents from oil refineries, factory and sewage discharges into rivers, fertilizer and chemical contamination of the soil, and industrial air pollution in urban areas. An estimated 1% of agricultural land is lost each year through soil erosion and salinization.

The government has not developed a comprehensive environmental conservation policy, but it has initiated programs to prevent water pollution, to reclaim land by reducing soil salinity, and to protect wildlife by limiting hunting. As a result of damage from the 1991 Persian Gulf War, water pollution has increased. Purification systems for water and sewage are inadequate. Toxic chemicals from damaged oil facilities contribute to water pollution. Iraq has 35.2 cubic kilometers of renewable water resources with 92% used in farming activity. Only 48% of those living in rural areas have access to safe drinking water.

Iraq ranks among the 50 nations with the world's highest levels of industrial carbon dioxide emissions. Its 1992 emissions totaled 64.5 million metric tons, a per capita level of 3.33 metric tons. In 1996, the total rose to 91 million metric tons. The nation's cities produce on average 6 million tons of solid waste per year.

The Supreme Council for the Human Environment is the principal environmental agency; its implementing body, the Directorate General for the Human Environment, was established in 1975 and is attached to the Ministry of Health. As of 2001, 7 of Iraq's mammal species and 12 of its bird species are endangered. Endangered species include the northern bald ibis, Persian fallow deer, Sa'udi Arabian dorcas gazelle, and Asiatic cheetah. The Syrian wild ass has become extinct.

## 6 POPULATION

The population of Iraq in 2003 was estimated by the United Nations at 25,175,000, which placed it as number 42 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 47% of the population under 15 years of age. There were 103 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.68%, with the projected population for the year 2015 at 34,226,000. The population density in 2002 was 54 per sq km (139 per sq mi). Mesopotamia is the most densely populated region.

It was estimated by the Population Reference Bureau that 77% of the population lived in urban areas in 2001. The capital city, Baghdad, had a population of 4,689,000 in that year. Other major cities included Arbil, 2,368,000, and Mosul, 1,034,000. According to the United Nations, the urban population growth rate for 2000–2005 was 3.3%.

## 7 MIGRATION

Immigration into Iraq was limited until the beginning of the 1970s. However, the rise in oil prices and the increase of oil exports, as well as extensive public and private spending in the mid-1970s, created a market for foreign labor. The result was a stream of foreign (mainly Egyptian) workers whose number may have risen as high as 1,600,000 before the Gulf War. During the Iran–Iraq war, many Egyptians worked in the public sector, filling a gap left by civil servants, farmers, and other workers who were fighting at the front. A number of Iraqis from the south, mainly Basra and its environs, influenced by family ties and higher wages, migrated to Sa'udi Arabia and Kuwait. To weaken local support in the north for Kurdish rebels, the government forced tens of thousands of Kurds to resettle in the south; in September 1987, a Western diplomat in Baghdad claimed that at least 500 Kurdish villages had been razed and 100,000 to 500,000 Kurds relocated.

In 1991 some 1.5 million Iraqis fled the country for Turkey or Iran to escape Saddam Hussein's increasingly repressive rule, but fewer than 100,000 remained abroad. Most of the refugees were Kurds who later resettled in areas in Iraq not controlled by the government. In September and October of 1996, around 65,000 Iraqi Kurds fled to Iran due to internal fighting between the Iraqi Kurds.

As of 1999, the UNHCR assisted 31,400 refugees in Iraq. Of these, 19,000 were Iranian Kurds, and 11,300 were Turkish Kurds. Another some 1,100 urban refugees of various nationalities live in Baghdad. In addition to these UNHCR-assisted refugees, Iraq hosts some 62,000 Palestinian refugees and an estimated 10,000 Iranians in the south of the country.

UNHCR also facilitates the voluntary return of Turkish Kurds from Iraq to Turkey. More than half of the Iranian Kurd refugees in Al-Tash have likewise expressed their desire to return to Iran.

In 1999 the net migration rate was zero migrants per 1,000 population.

## 8 ETHNIC GROUPS

Arabs constitute about 75–80% of the total population. The Kurds, an Islamic non-Arab people, are the largest and most important minority group, constituting about 15–20%. A seminomadic pastoral people, the Kurds live in the northeastern Zagros Mountains, mostly in isolated villages in the mountain valleys near Turkey and Iran. Kurdish opposition to Iraqi political dominance has occasioned violent clashes with government forces. Other minorities (5%) include Turkomans, living in the northeast; Yazidis, mostly in the Sinjar Mountains; Assyrians, mainly in the cities and northeastern rural areas; and Armenians.

## 9 LANGUAGES

Arabic is the national language and is the mother tongue of an estimated 79% of the population. Kurdish—the official language in Kurdish regions—or a dialect of it, is spoken by the Kurds and Yazidis. Aranaic, the ancient Syriac dialect, is retained by the Assyrians. Another Syriac dialect, Mandaean, is the liturgical language of the Sabaeans. The Turkomans speak a Turkic dialect. Armenian is also spoken.

## 10 RELIGIONS

Islam is the national religion of Iraq, adhered to by some 97% of the population according to a 1997 census. About 60–65% of Muslims belong to the Shi'a sect and 32–37% to the Sunni sect. Traditionally, the Shi'a majority has been governed and generally oppressed by members of the Sunni minority, which since the late 1970s has become increasingly concerned about the export of Shi'a militancy from Iran. There are also some syncretic Muslim groups, such as the Yazidis, who consider Satan a fallen angel who will one day be reconciled with God. They propitiate him in their rites and regard the Old and New Testaments, as well as the Koran (Qur'an), as sacred.

About 3% of the population are adherents to Christianity and other religions. More than 500,000 of the Christians were Roman Catholic, and nearly all the remainder belonged to various branches of Oriental Christianity. The Assyrians (who are not descended from the ancient Assyrians) are Nestorians. In the 19th century, under the influence of Roman Catholic missions, Christian Chaldaeans, originally also Nestorians, joined the Uniate churches, which are in communion with Rome; their patriarch has his seat in Mosul. The Sabaeans, or Mandaean, are often called Christians of St. John, but their religious belief and their liturgy contain elements of many creeds, including some of pre-Christian Oriental origin. Since baptism is their main ritual, they always dwell near water and are concentrated on the riverbanks south of Baghdad. Iraq's Jewish community, which had its origins in Babylonian times and which produced outstanding scholars during the first millennium AD, dwindled from about 90,000 in 1948 to 200 in 1990, virtually all Iraqi Jewry having emigrated to Israel by the early 1950s.

## 11 TRANSPORTATION

Major cities, towns, and villages are connected by a modern network of highways and roads which have made old caravan



LOCATION: 29° to 37°30' n; 39° to 48°e. BOUNDARY LENGTHS: Turkey, 305 kilometers (190 miles); Iran, 1,458 kilometers (906 miles); Persian Gulf coastline, 19 kilometers (12 miles); Kuwait, 254 kilometers (158 miles); Saudi Arabia, 895 kilometers (556 miles); Jordan, 147 kilometers (91 miles); Syria, 603 kilometers (375 miles). TERRITORIAL SEA LIMIT: 12 miles.

routes extinct. The city of Baghdad has been reshaped by the development of expressways through the city and by passes built since the 1970s. By 2002, Iraq had 45,550 km (28,304 mi) of roads, of which 38,400 km (23,861 mi) were paved. There were some 1,422,032 cars and 332,026 commercial vehicles in use as of 2000.

Railroads are owned and operated by the Iraqi State Railways Administration. A standard-gauge railroad connects Iraq with Jordan and Syria, and nearly all the old meter-gauge line connecting Irbil in the north with Basra, by way of Kirkuk and Baghdad, has been replaced. In 2002, there were about 2,339 km (1,453 mi) of railway lines.

Iraq had 150 airports in 2002, of which 77 had paved runways. However, an unknown number were damaged during the March–April 2003 war. Baghdad, Basra, and Mosul have international airports. Iraq Airways is the state-owned carrier; in the 1980s, its international flights landed only at night because of the Iraqi–Iranian war. The war also virtually closed Iraq's main port of Basra and the new port of Umm Qasr on the Persian Gulf. Iraq has some 1,015 km (630 mi) of waterways; the Shatt al Arab is usually navigable by maritime traffic for 130 km (81 mi); the Tigris and Euphrates has navigable sections for shallow-draft boats, and the Shatt al Basrah canal was navigable by shallow-draft craft before closing in 1991 because of the Gulf War. Expansion of Iraq's merchant marine, which totaled 1,470,000 GRT in 1980, was halted by the war with Iran and again by the Persian Gulf War; by 2002, the merchant marine totaled only 25 ships with a total capacity of 186,709 GRT.

## 12 HISTORY

Some of the earliest known human settlements have been found in present-day Iraq. Habitations, shrines, implements, and pottery found on various sites can be dated as early as the 5th millennium BC. Some sites bear names that are familiar from the Bible, which describes the region of the Hiddekel (Tigris) and Euphrates rivers as the location of the Garden of Eden and the city of Ur as the birthplace of the patriarch Abraham. Scientific exploration and archaeological research have amplified the biblical accounts.

Recorded history in Mesopotamia (the ancient name of Iraq, particularly the area between the Tigris and Euphrates) begins with the Sumerians, who by the 4th millennium BC had established city-states. Records and accounts on clay tablets prove that they had a complex economic organization before 3200 BC. The reign of Sumer was challenged by King Sargon of Akkad (r.c.2350 BC); a Sumero-Akkadian culture continued in Erech (Tall al-Warka') and Ur (Tall al-Muqayyar) until it was superseded by the Amorites or Babylonians (about 1900 BC), with their capital at Babylon. The cultural height of Babylonian history is represented by Hammurabi (r.c.1792–c.1750 BC), who compiled a celebrated code of laws. After Babylon was destroyed by the Hittites about 1550 BC, the Hurrians established the Mitanni kingdom in the north for about 200 years, and the Kassites ruled for about 400 years in the south.

From Assur, their stronghold in the north, the Assyrians overran Mesopotamia about 1350 BC and established their capital at Nineveh (Ninawa). Assyrian supremacy was interrupted during the 11th and 10th centuries BC by the Aramaeans, whose language, Aramaic, became a common language in the eastern Mediterranean area in later times. Assyrian power was finally crushed by the Chaldeans or Neo-Babylonians, who, in alliance with the Medes in Persia, destroyed Nineveh in 612 BC. Nebuchadnezzar II (r.c.605–c.560 BC) rebuilt the city-state of Babylon, but it fell to the Persians, under Cyrus of the Achaemenid dynasty, in 539 BC. Under his son Cambyses II, the Persian Empire extended from the Oxus (Amu Darya) River to the Mediterranean, with its center in Mesopotamia. Its might, in turn, was challenged by the Greeks. Led by the Macedonian conqueror Alexander the Great, they defeated the Persians by 327 BC and penetrated deep into Persian lands. The Seleucids, Alexander's successors in Syria, Mesopotamia, and Persia, built their capital, Seleucia, on the Tigris, just south of Baghdad. They had to yield power to the Parthians, who conquered Mesopotamia in 138 BC.

The Arabs conquered Iraq in AD 637. For a century, under the "Orthodox" and the Umayyad caliphs, Iraq remained a province of the Islamic Empire, but the 'Abbasids (750–1258) made it the focus of their power. In their new capital, Baghdad, their most illustrious member, Harun al-Rashid (ar-Rashid, r.786–809), became, through the Arabian Nights, a legend for all time. Under

Harun and his son Al-Ma'mun, Baghdad was the center of brilliant intellectual and cultural life. Two centuries later, the Seljuk vizier Nizam al-Mulk established the famous Nizamiyah University, one of whose professors was the philosopher Al-Ghazali (Ghazel, d.1111). A Mongol invasion in the early 13th century ended Iraq's flourishing economy and culture. In 1258, Genghis Khan's grandson Hulagu sacked Baghdad and destroyed the canal system on which the productivity of the region had depended. Timur, also known as Timur Lenk ("Timur the Lame") or Tamerlane, conquered Baghdad and Iraq in 1393. Meanwhile, the Ottoman Turks had established themselves in Asia Minor and, by capturing Cairo (1517), their sultans claimed legitimate succession to the caliphate. In 1534, Süleyman the Magnificent conquered Baghdad and, except for a short period of Persian control in the 17th century, Iraq remained an Ottoman province until World War I.

Late in 1914, the Ottoman Empire sided with the Central Powers, and a British expeditionary force landed in Iraq and occupied Basra. The long campaign that followed ended in 1918, when the whole of Iraq fell under British military occupation. The collapse of the Ottoman Empire stimulated Iraqi hopes for freedom and independence, but in 1920, Iraq was declared a League of Nations mandate under UK administration. Riots and revolts led to the establishment of an Iraqi provisional government in October 1920. On 23 August 1921, Faisal I (Faysal), the son of Sharif Hussein (Husayn ibn-'Ali) of Mecca, became king of Iraq. In successive stages, the last of which was a treaty of preferential alliance with the United Kingdom (June 1930), Iraq gained independence in 1932 and was admitted to membership in the League of Nations.

Faisal died in 1933, and his son and successor, Ghazi, was killed in an accident in 1939. Until the accession to the throne of Faisal II, on attaining his majority in 1953, his uncle 'Abdul Ilah, Ghazi's cousin, acted as regent. On 14 July 1958, the army rebelled under the leadership of Gen. 'Abd al-Karim al-Qasim (Kassim). Faisal II, Crown Prince 'Abdul Ilah, and Prime Minister Nuri al-Sa'id (as-Sa'id) were killed. The monarchy was abolished, and a republic established. Iraq left the anti-communist Baghdad Pact, which the monarchy had joined in 1955. An agrarian reform law broke up the great landholdings of feudal leaders, and a new economic development program emphasized industrialization. In spite of some opposition from original supporters and political opponents, tribal uprisings, and several attempts at assassination, Qasim managed to remain the head of Iraq for four and a half years. On 9 February 1963, however, a military *junta*, led by Col. 'Abd as-Salam Muhammad 'Arif, overthrew his regime and executed Qasim.

Since 1961, Iraq's Kurdish minority has frequently opposed with violence attempts by Baghdad to impose authority over its regions. In an attempt to cope with this opposition, the Bakr government passed a constitutional amendment in July 1970 granting limited political, economic, and cultural autonomy to the Kurdish regions. But in March 1974, Kurdish insurgents, known as the Pesh Merga, again mounted a revolt, with Iranian military support. The Iraqi army countered with a major offensive. On 6 March 1975, Iraq and Iran concluded an agreement by which Iran renounced support for the Kurds and Iraq agreed to share sovereignty over the Shatt al-'Arab estuary. The new regime followed a policy based on neutralism and aimed to cooperate with Syria and Egypt and to improve relations with Turkey and Iran. These policies were continued after 'Arif was killed in an airplane crash in 1966 and was succeeded by his brother, 'Abd ar-Rahman 'Arif. This regime, however, was overthrown in July 1968, when General (later Marshal) Ahmad Hasan al-Bakr, heading a section of the Ba'ath Party, staged a coup and established a new government with himself as president. In the 1970s, the Ba'ath regime focused increasingly on economic problems, nationalizing the petroleum industry in

1972–73 and allocating large sums for capital development. Bakr resigned in July 1979 and was followed as president by his chosen successor, Saddam Hussein (Husayn) al-Takriti.

Tensions between Iraq and Iran rose after the Iranian revolution of 1979 and the accession to power of Saddam Hussein. In September 1980, Iraq sought to take advantage of the turmoil in Iran by suddenly canceling the 1975 agreement and mounting a full-scale invasion. Iraqi soldiers seized key points in the Khuzistan region of southwestern Iran, captured the major southern city of Khorramshahr, and besieged Abadan, destroying its large oil refinery. The Iraqi army then took up defensive positions, a tactic that gave the demoralized Iranian forces time to regroup and launch a slow but successful counterattack that retook Khuzistan by May 1982. Iraq then sought peace and in June withdrew from Iranian areas it had occupied. Iran's response was to launch major offensives aimed at the oil port of Basra. Entrenched in well-prepared positions on their own territory, Iraqi soldiers repelled the attacks, inflicting heavy losses, and the war ground to a stalemate, with tens of thousands of casualties on each side.

Attempts by the UN and by other Arab states to mediate the conflict were unsuccessful; in the latter stages of the war, Iraq accepted but Iran regularly rejected proposals for a compromise peace. Although most Arab states supported Iraq, and the Gulf oil states helped finance Iraqi military equipment, the war had a destabilizing effect both on the national economy and on the ruling Ba'ath Party. France also aided Iraq with credits to buy advanced weapons (notably, Super Étendard fighters and Exocet missiles), and it provided the technology for Iraq to construct the Osirak nuclear reactor near Baghdad. (In June 1981, this installation was destroyed in a bombing raid by Israel, which claimed that the facility would be used to produce nuclear weapons, a charge Iraq denied.) Other Western countries provided supplies, financing, and intelligence to Iraq but denied the same to Iran.

In February 1986, the Iranians made their biggest gain in the war, crossing the Shatt al-'Arab and capturing Fao (Al-Faw) on the southernmost tip of land in Iraq. In early 1987, they seized several islands in the Shatt al-'Arab opposite Basra. The war soon spread to Persian Gulf shipping, as both sides attacked oil tankers and ships transporting oil, goods, and arms to the belligerents or their supporters.

The war ended on 20 August 1988 after Iran accepted a UN cease-fire proposal on 18 July. Having suffered enormous casualties and physical damage plus a massive debt burden, Baghdad began the postwar process of reconstruction. Before and after the war, there were scores to settle, primarily against the Kurds, some of whom had helped Iran and were the victims of Iraqi poison gas attacks. Many border villages were demolished and their Kurdish populations relocated.

When Iraq's wartime allies seemed unwilling to ease financial terms or keep oil prices high and questioned Iraq's rearmament efforts, Saddam Hussein turned bitterly against them. Kuwait was the principal target. After threats and troop movements, Iraq reasserted its claim (which dated from the days of the monarchy) to that country and on 2 August 1990, invaded and occupied it. Saddam Hussein was unflinching in the face of various peace proposals, economic sanctions, and the threatening buildup of coalition forces led by the United States.

A devastating air war led by the United States began on 17 January 1991 followed by ground attack on 24 February. Iraq was defeated, but not occupied. Despite vast destruction and several hundred thousand casualties, Saddam's regime remained firmly in control. It moved to crush uprisings from the Shia in the south and Kurds in the north. To protect those minorities, the United States and its allies imposed no-fly zones that gave the Kurds virtually an independent state, but afforded much less defense for the rebellious Arabs in the south whose protecting

marshes were being drained by Baghdad. There were several clashes between allied and Iraq forces in both areas.

In 1996, in an effort to boost morale in Iraq and bolster its image abroad, Iraq conducted its first parliamentary elections since 1989. However, only candidates loyal to Saddam Hussein were allowed to run. A government screening committee reviewed and approved all 689 candidates, who either belonged to Hussein's Ba'ath Party or were independents who supported the 1968 coup that brought the party to power.

The Iraqi economy continued to decline throughout the 1990s, with the continuation of the UN sanctions, imposed in 1990, which prohibited Iraq from selling oil on the global market in major transactions and froze Iraqi assets overseas. The deteriorating living conditions imposed on the Iraqi population prompted consideration of emergency measures. In 1996 talks were held between Iraq and the United Nations on a proposed "oil for food" humanitarian program that would permit Iraq to sell a limited quantity of oil in order to purchase food and basic supplies for Iraqi citizens. The United States and Britain wanted money earmarked for Iraq's Kurdish provinces funneled through the existing United Nations assistance program there. They also raised the issue of equity with respect to Iraq's existing rationing system. In December 1996, the UN agreed to allow Iraq to export \$2 billion in oil to buy food and medical supplies. Iraq began receiving 400,000 tons of wheat in the spring of 1997.

Since the end of the Gulf War, Iraq had demonstrated cooperation with UNSCOM, the special UN commission charged with monitoring weapons of mass destruction. However, Saddam Hussein refused to dismantle his country's biological weapons and had stopped cooperating with UNSCOM by August 1997, leading to increasing tension and a US military buildup in the region by early 1998. Personal intervention by UN Secretary General Kofi Annan helped diffuse the situation temporarily. However, renewed disagreements arose in the latter half of the year, ultimately leading to a December bombing campaign (Operation Desert Fox) by US and UK forces, with the goal of crippling Iraq's weapons capabilities. In late 1998 the US Congress also approved funding for Iraqi opposition groups, in hopes of toppling Saddam Hussein politically from within.

In 1999 the oil for food program was expanded to allow for the sale of \$5.25 billion in oil by Iraq over a six-month period to buy goods and medicine. As of 2000, most observers agreed that the decade-long UN sanctions, while impoverishing Iraq and threatening its population with a major humanitarian crisis, had failed in their goal of weakening Saddam's hold on power.

The situation in Iraq intensified in 2002. In his January 2002 State of the Union Address, US president George W. Bush labeled Iraq, along with Iran and North Korea, part of an "axis of evil"—states that threatened the world with weapons of mass destruction and sponsored terrorism. Throughout 2002, the United States, in partnership with the UK, brought the issue of the need to disarm the Iraqi regime of weapons of mass destruction (WMD) to the forefront of international attention. On 8 November 2002, the UN Security Council unanimously approved Resolution 1441, calling upon Iraq to disarm itself of all biological, chemical, and nuclear weapons and weapons capabilities, to allow for the immediate return of UN and International Atomic Energy Agency (IAEA) weapons inspectors (they had been expelled from the country in 1998), and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. UN and IAEA weapons inspectors returned to Iraq, but the United States and UK were neither satisfied with their progress nor with Iraq's compliance with the inspectors. The United States and the United Kingdom began a military buildup in the Persian Gulf region (eventually 250,000 US and 45,000 British troops would be stationed there), and pressed the UN Security Council to issue another resolution authorizing the use of force to disarm the Iraqi regime. This move

was met by stiff opposition from France, Germany, and Russia (all members of the Security Council at the time, with France and Russia being permanent members with veto power); the diplomatic impasse ended on 17 March 2003, when the United States, the United Kingdom, and Spain withdrew from the Security Council the resolution they had submitted that February that would have authorized the use of military force. War began on 19 March 2003, and by early April, the Iraqi regime had fallen.

The post-war period proved to be a difficult one for the United States and the United Kingdom, as their troops attempted to prevent looting and violence, to disarm Iraqis, and to begin the process of reconstruction. Especially contentious was the issue of the formation of a new Iraqi government: Iraqi exiles returned to the country, attempting to take up positions of power; Kurds demanded representation in a new political structure; and Shi'ites (who make up some 60% of the Iraqi population), agitated for recognition and power. The United States initially installed retired US Army Lt. Gen. Jay Garner as head of the Office of Reconstruction and Humanitarian Assistance, to oversee Iraq's civil administration while a new government was to be installed. Garner was replaced by former US State Dept. official L. Paul Bremer III in May 2003 in what some called an effort to put a civilian face on the reconstruction effort. European and Arab states called upon the United States and the United Kingdom to provide for a central role to be played by the UN in reconstructing Iraq, but the scope of that role was undefined as of June 2003. Many Iraqi political figures in June labeled the allied campaign to remove the Saddam Hussein regime more like an "occupation" than a "liberation," and called for elections to a national assembly that would produce a new constitution for the country.

### 13 GOVERNMENT

The coup d'état of 14 July 1958 established an autocratic regime headed by the military. Until his execution in February 1963, 'Abd al-Karim al-Qasim ruled Iraq, with a council of state and a cabinet. On 27 July 1958, a fortnight after taking over, Qasim's regime issued a provisional constitution, which has been repeatedly amended to accommodate changes in the status of the Kurdish regions. Since the 1968 coup, the Ba'ath Party ruled Iraq by means of the Revolutionary Command Council, "the supreme governing body of the state," which selected the president and a cabinet composed of military and civilian leaders. The president (Saddam Hussein from 1979–2003) served as chairman of the Revolutionary Command Council, which exercised both executive and legislative powers by decree. He was also prime minister, commander-in-chief of the armed forces, and secretary-general of the Ba'ath Party. A national assembly of 250 members that was elected by universal suffrage in 1980, 1984, 1989, 1996, and 2000, had little real power. Most senior officials were relatives or close associates of Saddam Hussein; nevertheless, their job security was not great.

The precarious nature of working in the regime of Saddam Hussein, even for relatives, was made evident in 1995 when two of his sons-in-law defected to Jordan along with President Hussein's daughters. The defection was widely reported in the international media and considered a great embarrassment to the regime as well as a strong indicator of how brutal and repressive its machinations were. After a promise of amnesty was delivered to the defectors by Iraq, the men returned and were executed shortly after crossing the border into Iraq.

In the aftermath of the 2003 war, Iraq was effectively ruled by the US-installed Office of Reconstruction and Humanitarian Assistance. US and British troops occupied and policed the country until a new government, run by Iraqis and severed from the Ba'ath Party, would be formed. As of June 2003, the whereabouts or survival of Saddam Hussein was unknown.

### 14 POLITICAL PARTIES

Under the monarchy, Prime Minister Nuri as-Sa'id dominated Iraq with the support of the upper-middle and upper classes. Tribal, religious, and local loyalties took precedence over any sense of Iraqi nationalism. Faisal I considered the existence of parties desirable for the political development of Iraq. During the decade 1935–45, however, they were ineffective as political factors. In 1946, five new parties were founded, including one that was Socialist (Al-Hizb al-Watani al-Dimuqrati, or the National Democratic Party), one avowedly close to communism (Ash-Sha'b, or the People's Party), and one purely reformist (Al-Ittihad al-Watani, or the National Union Party).

The response to these parties alarmed the conservative politicians. The Palestine War (1948) provided the pretext for suppression of the Sha'b and Ittihad parties. Only the National Democratic Party functioned uninterrupted; in 1950, with the lifting of martial law, the others resumed work. In 1949, Nuri as-Sa'id founded the Constitutional Union Party (Al-Ittihad ad-Dusturi), with a pro-Western, liberal reform program to attract both the old and the young generations. In opposition, Salih Jabr, a former partisan of Nuri's turned rival, founded the Nation's Socialist Party (Al-Ummah al-Ishtiraki), which advocated a democratic and nationalistic, pro-Western and pan-Arab policy. In 1954, however, Sa'id dissolved all parties, including his own Constitutional Union Party, on the ground that they had resorted to violence during the elections of that year.

After the coup of 1958, parties "voluntarily" discontinued their activities. In January 1960, Premier Qasim issued a new law allowing political parties to operate again. Meanwhile, the Ba'athists, who first gained strength in Syria in the 1950s as a pan-Arab movement with strong nationalist and socialist leanings, had attracted a following among elements of the Syrian military. In February 1963, Qasim was overthrown and executed by officers affiliated with a conservative wing of Iraq's Ba'ath movement. In November, a second coup was attempted by Ba'athist extremists from the left, who acted with complicity of the ruling Syrian wing of the party. With the 1968 coup, rightist elements of the Ba'ath Party were installed in prominent positions by Gen. Bakr. Since then, the Ba'athists, organized as the Arab Ba'ath Socialist Party, were the ruling political group in Iraq. In the national assembly elections of 1980, the Ba'athists won more than 75% of the seats at stake; in the 1984 elections, they won 73% of the seats. Elections were again held in March 1996, with only Ba'athists or independent supporters of Saddam Hussein allowed to run for seats in the Assembly. Altogether, 220 seats were contested by 689 candidates. Only Ba'ath Party members and supporters of the Saddam Hussein regime were allowed to run in the March 2000 elections as well. In the 1990s and into the new century, most real party activity in Iraq involved the country's Kurdish minority, which had established a number of political groups, most of them in opposition to the central government.

In 1991, the regime issued a decree theoretically allowing the formation of other political parties, but which in fact prohibited parties not supportive of the regime. Under the 1991 edict, all political parties had to be based in Baghdad and all were prohibited from having ethnic or religious affiliations.

Outside of Iraq, ethnic, religious and political opposition groups came together to organize a common front against Saddam Hussein, but they achieved very little until 2003. The Shi'a al-Dawa Party was brutally suppressed by Saddam before the Iran-Iraq war; its remnants are now based in Tehran. In the aftermath of the 2003 war, certain Shi'a clerics, including Grand Ayatollah Ali al-Sistani and Ayatollah Muhammad Bakr al-Hakim, emerged as political and religious leaders for the Shi'a community. Shi'a demonstrations were staged against US and

British forces, and Western observers were concerned Shi'a groups would attempt to establish an Islamic theocracy in Iraq.

The two main Kurdish political parties as of 2003 were the Kurdistan Democratic Party (KDP), led by Massoud Barzani, and the Patriotic Union of Kurdistan (PUK), led by Jalal Talabani. Long rivals, the two parties have been called upon to reconcile differences so as to provide for a viable future for Iraq's Kurds. The Iraqi National Congress, based in Salahuddin in northern Iraq and in London, is led by Ahmad Chalabi. The group aimed to unite all Iraqi opposition groups, and sees itself as the legitimate representative of the people of Iraq.

## 15 LOCAL GOVERNMENT

Iraq until 2003 was divided into 18 provinces (three of which formed an autonomous Kurdish region), each headed by an appointed governor. Provinces were subdivided into districts, each under a deputy governor; a district consists of counties, the smallest units, each under a director. Towns and cities were administered by municipal councils led by mayors. Baghdad's municipality, the "governorate of the capital," under its mayor, or "guardian of the capital," served as a model municipality. A settlement reached with the Kurds in 1970 provided for Kurdish autonomy on the local level. In 1974, the provisional constitution was further amended to provide the Kurdistan region with an elected 80-member legislative council; elections were held in 1980 and 1986, but, in fact, the Iraqi army controlled Kurdistan until the imposition of a UN-approved protected zone in the north at the end of the Gulf War. In May 1992, Kurds held elections there for a new 100-member parliament for the quasi-independent region. This marked the only relatively free elections held in Iraq in several decades.

Local governing authority broke down following the fall of the Iraqi regime in April 2003. US and British troops were responsible for policing the country, and for restoring electricity, running water, sanitation, and other essential services.

## 16 JUDICIAL SYSTEM

The court system until 2003 was made up of two distinct branches: a security component and a more conventional court system to handle other charges. There was no independence in the operation of the judiciary; the president could override any court decision.

The security courts had jurisdiction in all cases involving espionage, treason, political dissent, smuggling and currency exchange violations, and drug trafficking. The ordinary civil courts had jurisdiction over civil, commercial, and criminal cases except for those that fell under the jurisdiction of the religious courts. Courts of general jurisdiction were established at governorate headquarters and in the principal districts.

Magistrates' courts tried criminal cases in the first instance, but they could not try cases involving punishment of more than seven years in prison. Such cases were tried in courts of sessions that were also appellate instances for magistrates' courts. Each judicial district had courts of sessions presided over by a bench of 3 judges. There were no jury trials. Special courts to try national security cases were set up in 1965; verdicts of these courts could be appealed to the military supreme court. In other cases, the highest court of appeal was the court of cassation in Baghdad, with civil and criminal divisions. It was composed of at least 15 judges, including a president and two vice-presidents.

For every court of First Instance, there was a Shari'ah (Islamic) court that ruled on questions involving religious matters and personal status. Trials were public and defendants were entitled to free counsel in the case of indigents. The government protected certain groups from prosecution. A 1992 decree granted immunity from prosecution to members of the Ba'ath Party. A 1990 decree granted immunity to men who killed their mothers,

daughters, and other female family members who had committed "immoral deeds" such as adultery and fornication.

The judicial system is currently in transition following the April 2003 defeat of the Saddam Hussein regime.

## 17 ARMED FORCES

The Iraqi armed forces were estimated at 389,000 men in 2002. Reservists numbered around 650,000. The army had a strength of approximately 350,000 with 2,000 tanks; the navy had 2,000 men; and the air force had 20,000 men with perhaps 316 combat aircraft. The army included 6 Republican Guard divisions. The Air Defense Command numbered around 17,000 and was given priority since 1991. It is suspected that Iraq is in the process of developing a nuclear capability and possesses long-range strike capabilities and biological and chemical weapons. The paramilitary, numbering some 44,000 included security troops, border guards, and Saddam's *Fedayeen* forces. Opposition forces number around 33,000. The defense budget was estimated at \$1.3 billion in 2000.

## 18 INTERNATIONAL COOPERATION

Iraq is a charter member of the UN, having joined on 21 December 1945, and participates in ESCWA and all the nonregional specialized agencies. A founding member of the Arab League, Iraq also participates in G-77 and OPEC, and has signed the Law of the Sea. Iraq has given both military and economic support to Arab parties in the conflict with Israel. The war with Iran preoccupied Iraq during the 1980s, and Iraq's relations with other countries in the Arab world has been varied. During the 1980s, Iraq maintained friendly relations with some Western countries, notably France, a major arms supplier to Iraq. In November 1984, diplomatic relations between Iraq and the United States were renewed after a break of 17 years, but were broken off again when Iraq invaded Kuwait in August of 1990. The United States and its allies launched an air war against Iraq after diplomatic efforts and economic sanctions failed to convince Iraq to leave Kuwait. Iraq's international standing deteriorated badly and the nation was placed under an international trade embargo. Iraq was attacked by US and British forces beginning on 19 March 2003, and the regime led by Saddam Hussein was defeated by those forces that April. In the post-war period, the country is undergoing reconstruction and the government is in transition.

## 19 ECONOMY

In 1973, just before the first oil shock, Iraqi oil revenue was \$1.8 billion. In 1978, as the second oil shock was taking hold, its oil revenues peaked at \$23.6 billion. In 2002, it is estimated at about \$15 billion. GDP growth was in double digits from 1973 to 1980 with the exception of 1974, when it was 7.2%. It was from these lofty heights that the regime of Saddam Hussein launched two wars whose effects on the Iraqi economy, even aside from the tragic human costs, proved devastating to the Iraqi economy. The Iraq-Iran War 1980 to 1988 began with Iraq's attempt to seize control of the economically and strategically important Shatt-al-Arab from Iran, which the countries had agreed to divide in a treaty in 1975. Saddam miscalculated that Iran could be easily dismembered during its revolutionary upheavals, and when the war ended, eight bloody years later, the Shatt-al-Arab, and all other border issues, returned to the status quo antebellum, leaving Iraq with no material gain and a debt of over \$100 billion, much of it owed to Kuwait. Annual oil revenues for Iraq and Kuwait were roughly even—averaging about \$16 billion a year—but Kuwait, instead of spending on armaments, had invested sizeable amounts in the West essentially doubling its returns. Kuwait refused to see the debts owed it by Iraq as money spent for its own defense, and insisted on being repaid, providing the economic trigger for Iraq's second disastrous foray—the



invasion of Kuwait 2 August 1990, and its absorption as the 19th province of Iraq. For the first and, so far, only time the UN Security Council agreed to support collective action against an aggressive power, and Iraqi forces were driven out of Kuwait in the first Gulf War, February 1991. The UN imposed comprehensive economic, financial, and military sanctions, placing the Iraqi economy under siege. Acting on its own, the United States also froze all Iraqi assets in the United States and barred all economic transactions between US citizens and Iraq. Many other countries imposed similar sanctions on top of the UN-imposed embargo. UN Security Council resolutions authorized the export of Iraqi crude oil worth up to \$1.6 billion over a limited time to finance humanitarian imports for the Iraqi people.

The effect of war in Kuwait and continuing economic sanctions reduced real GDP by at least 75% in 1991, on the basis of an 85% decline in oil production, and the destruction of the industrial and service sectors of the economy. Living standards deteriorated and the inflation rate reached 8000% in 1992. Estimates for 1993 indicated that unemployment hovered around 50% and that inflation was as high as 1000%. Because UN costs and reparations for Kuwait were taken out of permitted oil sales before being handing over to the Iraqi regime, the government's revenues were lower than total oil sales. The Organization of Arab Petroleum Exporting Countries (OAPEC) reports that Iraqi oil revenues at current prices were \$365 million in 1994, \$370 million in 1995 and \$680 million in 1996. It should be noted that since the first Gulf War Iraq has refused to provide economic data to the UN or any other international organization, and all estimates are subject to wide variability and questions of reliability. Uncertainty is increased by a flourishing black market that has been responsible for an increasing share of domestic commerce. There were widespread expectations that the Hussein regime would soon fall from the weight of its disastrous political and economic miscalculations, but this did not happen, and by 1995 it had become apparent that the tight restrictions on oil sales were resulting in serious harm to the Iraqi people. The UN passed its first oil-for-food program (which the Iraqi regime refused to accept until 1996) allowing oil worth \$5.26 billion to be sold every six months, with strict controls over how the money was spent. OAPEC reports that Iraqi oil revenues were about \$4.6 billion in 1997 and \$6.8 billion in 1998. In December 1999 the UN Security Council lifted the limits on Iraq's oil production, which then rose from 550,000 bbl/d in November 1996 to an average of about 2.6 million bbl/d during 2000. The CIA estimates that real GDP growth fell by 5.7% in 2001 due to the slowdown in the world economy and lower oil prices. Per capita income in 2001 is estimated at about \$2,500 by most sources.

By mid-2002, crude exports from Iraq had fallen below its normal capacity (about 2 million bbl/d) to an average of 630,000 bbl/d. According to the UN assessments, this low export level created a \$2.64 billion shortfall in the oil-for-food program. One cause of the reduced exports was a stoppage of all oil exports by Baghdad for one month beginning 8 April 2002 as a protest against Israel. Iraq had urged all other Arab oil exporters to join the shutdown, but no other country followed Iraq in this attempt to use oil as a weapon to pressure Israel and its supporters. Low exports were also blamed on illegal surcharges of about 15–45 cents per barrel being levied by Iraq from about December 2000, and the tactic of “retroactive pricing” adopted by the United States and the United Kingdom in January 2001 to combat these surcharges. Both the surcharges and the retroactive pricing—whereby the price charged for Iraqi oil was revealed only after the sale, and then set at a level too high for a surcharge to be paid and still make a profit—raised the price and reduced demand for Iraqi oil. The concerns by the United States and the United Kingdom were that the surcharges were being used to fund a secret military build-up by Iraq. UN estimates are that from 1996

to 2002 the “oil-for-food” generated about \$60 billion. The US government estimates that through smuggling and illegal surcharges the Iraqi government secured about \$6.6 billion from 1997 to 2001. On 14 May 2002, after Iraq had resumed oil exports, the UN Security Council approved a change in the oil-for-food program to add an extensive list of “dual-use” goods (goods that could be used for military as well as non-military purposes) that Iraq could not purchase with its oil revenues.

On 16 October 2002, President Bush signed the resolution passed by the US Congress authorizing the use of force in Iraq. On November 8, 2002 the UN Security Council unanimously adopted Resolution 1441 demanding UN arms inspectors be given unconditional access to search anywhere in Iraq for banned weapons, and requiring a “accurate, full and complete” accounting of all of its weapons of mass destruction within 30 days. After failure to secure a second resolution from the UN Security Council in February 2003 explicitly supporting a military invasion of Iraq—all members of the current Council were opposed except the United Kingdom—the United States and United Kingdom held to their intention to act without the UN. The attack was launched 20 March 2003, beginning with a surgical strike aimed at killing Saddam Hussein, which may or may not have succeeded, but in any case did not induce a surrender by the regime or the people. Holding as it does the second-largest oil reserves in the world, Iraq's economic future after the war was the subject of intense concern well before the war was opened, much less concluded. A December 2002 study by the James A. Baker Institute for Foreign Policy on Iraq's oil sector concluded, among other things that a “bonanza” of oil was not to be expected from Iraq in the near future because, among other things, the poor state of the sector's infrastructure and further likely damage from the war. In April 2003, the estimates were that contracts amounting to between \$20 to \$100 billion would be at play in the rebuilding of Iraq after the war, to be paid for with Iraqi oil.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Iraq's gross domestic product (GDP) was estimated at \$59 billion. The per capita GDP was estimated at \$2,500. The annual growth rate of GDP was estimated at -5.7%. The average inflation rate in 2001 was 60%. 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 13%, and services 81%. Foreign aid receipts amounted to about \$5 per capita.

## 21 LABOR

The Trade Union Organization Law of 1987 established a centralized trade union structure of committees linked to trade unions, which in turn are part of provincial trade union federations under the control of the Iraqi General Federation of Trade Unions, and ultimately are controlled by the ruling Ba'ath Party. Although workers are legally allowed to strike upon informing the Labor Ministry, no strike has been reported in over 20 years.

Child labor is strictly controlled and in many cases prohibited. The minimum working age is 14, although economic necessity and lack of government enforcement have increased the number of children of all ages that are employed. There is a six-day, 48-hour workweek, although this does not apply to agricultural workers. Historically, working women have been accepted in Iraq, but the number of women in the workforce dramatically increased because of the prolonged war with Iran as well as the Persian Gulf War, as women replaced men in the labor market.

In many cases, rural labor and farmers employed in government projects get reasonable salaries and good housing, but small, independent farmers receive fewer benefits. Since 1958, the Iraqi government has passed a number of agrarian reform laws. As a general rule, however, the quality of life differs greatly between rural areas and the cities, especially that in Baghdad. This differential has resulted in massive rural to urban migration.

## 22 AGRICULTURE

The rich alluvial soil of the lowlands and an elaborate system of irrigation canals made Iraq a granary in ancient times and in the Middle Ages. After the irrigation works were destroyed in the Mongol invasion, agriculture decayed. Today, about 13% of the land is considered arable.

Under various agrarian reform laws—including a 1970 law that limited permissible landholdings to 4–202 hectares (10–500 acres), depending on location, fertility, and available irrigation facilities—about 400,000 previously landless peasants have received land. Agrarian reform has been accompanied by irrigation and drainage works, and by the establishment of cooperative societies for the provision of implements and machinery, irrigation facilities, and other services.

Agricultural production in Iraq declined progressively because of the war with Iran and the Persian Gulf War. In 1992, wheat production was estimated at 600,000 tons compared with 965,000 tons in 1982, but by 1999 was only 800,000 tons. The comparable figures for barley were 400,000, 902,000, and 500,000 tons; for cotton, 5,000, 8,000, and 9,000 tons. Dates, Iraq's most important agricultural export, increased from 374,000 tons in 1982 to an estimated 600,000 in 1999. Crops grown for domestic consumption include millet, lentils, beans, cucumbers, melons, figs, potatoes, corn, sugarcane, tobacco (a government monopoly), and mulberries.

Because of the international embargo placed on Iraq for its invasion of Kuwait, the government has attempted to establish firm control over the distribution of domestic agricultural production. Farmers, however, have been reluctant to adhere to directives requiring them to sell the entirety of their harvests to the state marketing boards set up after the war, since food fetches a considerably higher price on the black market than the state is able to pay. In the early years after the war, the government engaged in terror tactics to intimidate recalcitrant farmers. These essentially stopped by 1995, but the government continued to issue veiled threats to farmers through the media. Nonetheless, most Iraqis were forced to seek about 50% of their food needs on the black market. In 2001, agricultural imports exceeded exports by \$1.59 billion.

## 23 ANIMAL HUSBANDRY

Animal husbandry is widespread. Sheep raising is most important, with wool used domestically for weaving carpets and cloaks. In 2001, Iraq had an estimated 6.1 million sheep; 1.6 million goats; 1.4 million head of cattle, and numerous donkeys, camels, mules, buffaloes, and poultry. In 2001, of the 300,000 tons of milk produced by all livestock, 58% came from cows, 28% from sheep, 10% from goats, and 4% from buffaloes.

## 24 FISHING

Centuries of overfishing without restocking reduced the formerly plentiful supply of river fish, but the fishing industry has rebounded since the early 1970s. The 2000 fish catch (including salmon and, especially in the Tigris, carp) was 20,766 tons. Since the 1990/91 war, and the closure of Iraq's ports because of fighting, the Iraqi fishing fleet has been dispersed around the world and does not operate in the Persian Gulf.

## 25 FORESTRY

Forests of oak and Aleppo pine in the north cover less than 2% of Iraq's entire area and have been depleted by excessive cutting for fuel or by fires and overgrazing. Since 1954, indiscriminate cutting has been prohibited, and charcoal production from wood has ceased. The forestry research center at Irbil has established tree nurseries and conducted reforestation programs. Output of roundwood was estimated at 110,000 cu m (3,882,000 cu ft) in 2000.

## 26 MINING

Iraq's minerals industry was dominated by the production of hydrocarbons. Crude oil was Iraq's sole export commodity in 2002, and construction materials comprised another leading industry. Other than oil, mineral resources were limited. In 2001, Iraq produced hydraulic cement, nitrogen, phosphate rock (from the Akashat open-pit mine), salt, and native Frasch sulfur (from underground deposits at Mishraq, on the Tigris River, south of Mosul), and probably produced clay, gypsum, lime, limestone, industrial sand (glass or silica), sand and gravel, and stone. In 2001, the State Organization for Minerals reported the discovery of sulfur deposits in the Western Desert, near Akashat. Production figures for 2001, in tons, were: phosphate, 100,000, down from 300,000 in 1999; sulfur, 98,000, down from 475,000 in 1996; and salt, 300,000. Production of all mineral commodities has fallen since the 1990 UN embargo on international trade. Damage to the minerals industry from Iraq's 1991 and 1980–88 wars has been substantially repaired. Geological surveys have indicated usable deposits of iron ore, copper, gypsum, bitumen, dolomite, and marble; these resources have remained largely unexploited, because of inadequate transport facilities and lack of coal for processing the ores.

## 27 ENERGY AND POWER

Iraq has the second-largest petroleum reserves in the Middle East (after Saudi Arabia), with proved deposits estimated at 112.5 billion barrels in early 2002. Oil revenues help to balance the budget, stabilize the currency, establish a surplus balance of payments, and finance the development program. Oil concessions were first granted in 1925, and the first production began two years later. The three major oil companies operating in Iraq by the early 1970s were the Iraq Co. for Oil Operations (ICOO), the Basrah Petroleum Co. (BPC), and the Iraq National Oil Co. (INOC). By 1975, as a result of nationalizations carried out starting in 1972, state-owned operations controlled 100% of national oil production.

Major drops in crude oil production accompanied both the war with Iran and the 1991 Gulf War. Output dropped from 3,476,900 barrels per day in 1979 to 897,400 barrels daily in 1981, and from 2,897,000 barrels per day in 1989 to 305,000 barrels daily in 1991, following an embargo on Iraqi oil exports. In January 1992, the Al-Bakr oil export terminal, the only outlet to the sea, was reopened at half capacity; by August, the full capacity of 1.6 million barrels per day was restored, even though UN sanctions prohibited Iraq from exporting its oil.

In September 1991, the UN proposed a plan to allow Iraq to raise revenue for humanitarian purchases and war reparations by exporting limited quantities of oil. Iraq repeatedly rejected the plan claiming that it would violate sovereignty, but in January 1996 began negotiations with the UN on implementation of the plan. By May 1996, Iraq and the UN agreed on how to carry out UN Resolution 986, which allows Iraq to sell \$1 billion worth of oil every 90 days for a 180-day trial period (called the "Oil for Food" program). Proceeds from the sales were to go into a UN-managed escrow account and be used to provide humanitarian assistance to Iraq under UN supervision. In 1998, the UN Security Council voted to raise Iraq's six-month export quota to

\$5.26 billion, in Resolution 1153. In 1999 the UN removed all restrictions on the amount of oil Iraq could export. For most of the 1990s, the US-imposed trade embargo reduced Iraqi access to oil industry technology, supplies, and investment. Early in 2002, a government official indicated that of Iraq's 73 oil fields, only 24 were actually in production. In 1998, construction was authorized for a 100,000 barrel per day pipeline to pump Iraqi crude oil to Jordan's Zarga refinery. In 2000 oil production was an estimated 2.5 million barrels per day.

The most important fields are at Kirkuk, with lesser fields at Naft Khaneh, Ayn Zalah, and Butmah in the Mosul area, and at Az-Zubayr and Ar-Rumaylah near Basra. Oil for export was formerly piped to the Mediterranean through Syria and Lebanon, or to the Persian Gulf, but Syria closed the pipeline when Iraq invaded Iran, which Syria supported, and Iran closed Iraq's Gulf shipping. A new pipeline through Turkey transported more than half of Iraq's oil exports in the early 1980s; this was expanded by additions in 1985 and 1987, supplemented by a pipeline completed in 1985 running to Saudi Arabia's Red Sea port of Yanbu al-Bahr; the pipeline was closed during the Persian Gulf War.

The development of both hydroelectric and thermal capacity proceeded rapidly during the 1970s. In Baghdad, electricity is supplied by a thermoelectric fuel-oil plant installed by British and Belgian firms but was later nationalized and supplemented by a second plant. Other cities generate power in small municipal power stations. Iraq's power installations were repeated targets of Iranian air attacks in the 1980s, and were badly damaged during the conflict in the Persian Gulf in 1991. As much as 90% of Iraq's power grid, as well as a substantial portion of its power infrastructure, was damaged or destroyed. At the beginning of 2002 Iraq had 3.1 trillion cu m of proven natural gas reserves, plus another 4.2 trillion cu m in probably reserves. Nearly three-fourths of Iraq's oil reserves are associated with oil fields. In 2000, Iraq produced 3.1 billion cu m of natural gas.

Total electricity production in 2000 was 31,700 million kWh, of which 98% was from fossil fuels and 2% from hydropower. The country's generating capacity was about 9,500 MW in 2001.

## 28 INDUSTRY

Main industries are oil refining, food processing, textiles, leather goods, cement and other building materials, tobacco, paper, and sulfur extraction. Iraq has ten oil refineries, all managed by the government's Oil Refineries Administration. The Iraq-Iran and Gulf wars seriously affected Iraqi refining. Iraq has total refinery capacity of 350,000 barrels per day (the Iraqi government claims 700,000), with the largest refinery, Baiji North, rated at 150,000 barrels per day. The second-largest refinery, at Salaheddin, has a capacity of 140,000 barrels per day. The bulk of Iraq's refinery capacity is concentrated in the Baiji complex.

In 1964, the government took over all establishments producing asbestos, cement, cigarettes, textiles, paper, tanned leather, and flour. Public-sector industrial establishments include a sulfur plant at Kirkuk, a fertilizer plant at Basra, an antibiotics factory at Samarra', an agricultural implements factory at Iskandariyah, and an electrical equipment factory near Baghdad. In the 1970s, Iraq put strong emphasis on the development of heavy industry and diversification of its current industry, a policy aimed at decreasing dependence on oil. During the 1980s, the industrial sector showed a steady increase, reflecting the importance given to military industries during the Iran-Iraq war. By early 1992 it was officially claimed that industrial output had been restored to 60% of pre-Gulf War capacity. The UN oil-for-food program has allowed limited oil sales in 1999 and 2000, despite economic sanctions resulting from the Gulf War.

## 29 SCIENCE AND TECHNOLOGY

Iraq has imported Western technology for its petrochemical industry. The Scientific Research Council was established in 1963 and includes nine scientific research centers. The Nuclear Research Center (founded in 1967) has conducted nuclear physics experiments and produced radioisotopes with equipment supplied by France. In 1982, the French government agreed to help rebuild the institute's Osirak reactor, knocked out by an Israeli air attack the previous year. Eight universities offer degrees in basic and applied sciences. In addition, the Ministry of Higher Education has 18 incorporated technical institutes. The Agriculture and Water Resources Research Center (founded in 1980) and the Iraq Natural History Research Center and Museum (founded in 1946) are both located in Baghdad. The Iraqi Medical Society (founded in 1920) is headquartered there.

## 30 DOMESTIC TRADE

Modern shops and department stores are spreading throughout the country, replacing traditional bazaars. Baghdad, Mosul, and Basra, as well as other large and medium-size cities, all have modern supermarkets and branches of the official department store, "al-Makhazin al-Iraqiyyah." Baghdad leads in wholesale trade and in the number of retail shops.

The previously state-owned economy has been suffering since the 1980-1988 Iran-Iraq War. The 1990 Kuwait invasion and the subsequent international military intervention caused even greater damage to the infrastructure and resulted in international sanctions that crippled the economy. With the 2003 ousting of Saddam Hussein by international coalition forces, the way is paved to reopen the Iraqi economy to international trade. However, the nation will likely be highly dependent on foreign aid and investment for a number of years.

Normal banking hours in summer are 8 AM to noon, Saturday-Wednesday, and 8 to 11 AM on Thursday; winter openings and closings are an hour later.

## 31 FOREIGN TRADE

Iraq's most valuable export is oil, which has historically accounted for almost all of its total export value. Rising oil prices during the 1970s created increases in export revenues. However, the drop in world oil prices and Iraq's exporting problems due to international sanctions essentially put an end to Iraqi oil exports. The UN imposed trade restrictions on non-oil exports in August 1990. Non-oil exports (often illegal) were estimated at \$2 billion for the 12 months following the March 1991 cease-fire. Iraq was traditionally the world's largest exporter of dates, with its better varieties going to Western Europe, Australia, and North America.

Until 1994, the UN committee charged with supervising what little international trade Iraq is permitted to engage in—food and medicine, essentially—kept records on the amount of goods it approved for import in exchange for oil. In the first half of 1994, the committee recorded \$2 billion in food imports, \$175 million in medicine, and an additional \$2 billion in "essential civilian needs," a term that at that time referred to agricultural machinery, seeds, and goods for sanitation.

In 1995, the Iraqi government rationed its people only one half of the minimum daily requirement in calories. In 1997, the UN permitted Iraq to expand its oil sales to increase its purchasing power of food and other sources of humanitarian relief. In the spring of that year the country received 400,000 tons of wheat to help feed its suffering population, who had been living under strict food rations for four years. Limited exports were organized by the UN, and the oil-for-food program brought in revenues during 1999 equaling \$5.3 billion.

In 1998, Iraq exported crude petroleum (80%), refined petroleum products (18%), and natural and manufactured gas

(2.0%). Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	1,237	117	1,120
France	671	281	390
Spain	452	16	436
Italy	366	42	324
Netherlands	297	11	286
Austria	122	11	111
Taiwan	108	n.a.	n.a.
Portugal	107	n.a.	n.a.
China (inc. Hong Kong)	54	115	-61
Australia	33	216	-183

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Iraq's exports was \$15.8 billion while imports totaled \$11 billion resulting in a trade surplus of \$4.8 billion. Following the 2003 war, a representative government was forecast to be in place by 2005, which would promote the stabilization of the economy. Although substantial imports in the second half of 2003 were forecast to limit the trade surplus, oil output was forecast to rebound in 2004, driving GDP growth and creating a current account surplus of 8% of GDP.

### 33 BANKING AND SECURITIES

When Iraq was part of the Ottoman Empire, a number of European currencies circulated alongside the Turkish pound. With the establishment of the British mandate after World War I, Iraq was incorporated into the Indian monetary system, which was operated by the British, and the rupee became the principal currency in circulation. In 1931, the Iraq Currency Board was established in London for note issue and maintenance of reserves for the new Iraqi dinar. The currency board pursued a conservative monetary policy, maintaining very high reserves behind the dinar. The dinar was further strengthened by its link to the British pound. In 1947 the government-owned National Bank of Iraq was founded, and in 1949 the London-based currency board was abolished as the new bank assumed responsibility for the issuing of notes and the maintenance of reserves.

In the 1940s, a series of government-owned banks was established: the Agricultural Bank and the Industrial Bank, the Rafidayn Bank, the Real Estate Bank, the Mortgage Bank, and the Cooperative Bank. In 1956 the National Bank of Iraq became the Central Bank of Iraq. In 1964, banking was fully nationalized. The banking system comprises the Central Bank of Iraq, the Rafidain Bank, the main commercial bank, and three others: the Agricultural Cooperative Bank, the Industrial Bank, and the Real Estate Bank. In 1991 the government decided to end its monopoly on banking. Data on the financial situation in Iraq are not generally available as the main source of official statistics, the Central Bank of Iraq, has not released figures since 1977. However, data from external authorities are available. After 1991, six new banks were established—the Socialist Bank, Iraqi Commercial Bank, Baghdad Bank, Dijla Bank, Al-Itimad Bank, and the Private Bank—as a result of liberalizing legislation and the opportunity for large-scale profits from currency speculation.

Preference for investing savings in rural or urban real estate is common. Major private investments in industrial enterprises can be secured only by assurance of financial assistance from the government. The establishment of a stock exchange in Baghdad was delayed by practical considerations such as a lack of computers, but it was eventually inaugurated in March 1992. Trading has not been heavy, and no exact statistics are available.

During the US-led war and subsequent occupation of Iraq, the financial sector essentially disappeared. The banking district of Baghdad was wrecked by the bombing campaign, and until a

provisional government is set up, it appears that financial activity remains at a standstill. Of course, occupation officials saw rejuvenation of Iraq's banking system as a high priority, and have been taking steps toward the establishment of a new central bank that will have the power to issue new currency and set interest rates, in the hopes of managing the country's massive debts. USAID gave loans of up to \$250,000 to small businesses and entrepreneurs in order to jumpstart the economy. Fortunately, Iraq's banking system had been one of the region's most advanced prior to the war, so the foundations have already been laid for a sound financial sector.

### 34 INSURANCE

The insurance industry was nationalized in 1964. The State Insurance Organization supervises and maintains three companies: the National Life Insurance Co., the Iraqi Life Insurance Co., and the Iraqi Reinsurance Co. Third-party motor vehicle liability insurance is compulsory. In 1999, Iraqis spent \$42 million on insurance.

### 35 PUBLIC FINANCE

There are several budgets: the ordinary budget, under which the regular activities of the government are financed; separate budgets for the Iraqi State Railways, the Port of Basra Authority, the Al-Faw Dredging Scheme, and the tobacco monopoly; municipal budgets requiring government approval; and allocations for semi-independent government agencies. In addition, there is a separate development budget, as well as an undeclared budget for the military believed to have absorbed over half of state funds during the war with Iran. Since 1980, the decline in oil exports and huge war expenditures forced Iraq to borrow and to raise funds from abroad. Iraq's invasion of Kuwait in 1990, with the consequent infrastructural damage, UN sanctions, and oil embargo, have severely diminished revenues. The future of the Iraqi economy is highly uncertain. Until a stable government is in place, it will be very difficult for any commercial activity to take place. Certainly Iraq will be borne into independence with huge external debts.

### 36 TAXATION

Direct taxes are levied on income and on property. The rental value of dwellings, commercial buildings, and nonagricultural land is taxed, with a certain tax-free minimum. In 1939, graduated income tax rates were established on income from all sources except agriculture. Most agricultural income is not taxed.

Indirect taxation predominates. The land tax must be paid by all who farm government lands with or without a lease. Owners of freehold (lazimah) land pay no tax or rent. Much farm produce consumed on the farm or in the village is not taxed at all, but when marketed, farm products are taxed.

### 37 CUSTOMS AND DUTIES

Since about 1950, tariffs have been used primarily to protect Iraqi industry or to stimulate industries that might eventually reduce the need for foreign imports. This tariff system levies duties on luxury items but has reduced rates on industrial equipment and on certain raw materials and foodstuffs. Iraq has a single-column tariff, with duties collected at Basra and Baghdad. In October 1992, Iraq banned the import of 157 "luxury items," including cheese, onions, shampoo, matches, shoes, and carpets. In 1989, Iraq joined the newly formed Arab Cooperation Council with Egypt, Jordan, and Yemen. The ACC's goals included formation of a common market and economic integration in other areas. The international embargo levied against the nation after it invaded Kuwait has essentially ended Iraq's participation in the ACC. Egypt, one of its partners in the Council, was a leader in the military coalition that liberated Kuwait.

### 38 FOREIGN INVESTMENT

UN sanctions have effectively frozen all of Iraq's foreign transactions for the near future. In October 1992, the UN Security Council permitted these frozen assets, including Iraqi oil in storage in Turkey and Saudi Arabia, to be sold without the permission of the Iraqi government. About \$1 billion of frozen assets were to pay for compensation to Kuwaiti victims of the invasion and to cover UN operations inside Iraq.

### 39 ECONOMIC DEVELOPMENT

The government both controls and participates in petroleum, agriculture, commerce, banking, and industry. In the late 1960s, it made efforts to diversify Iraq's economic relations and to conserve foreign exchange. As an example, it was announced in 1970 that contracts for all planned projects would be awarded to companies willing to receive compensation in crude oil or petroleum products. The government also undertook to build an Iraqi tanker fleet to break the monopoly of foreign oil-transport companies.

Iraq has an estimated foreign debt of more than \$87 billion. The imposition of sanctions against Iraq has destroyed all attempts to stabilize Iraq's payments. Iraq also faces reparation claims. Iran is separately pursuing its claim for massive separation payments arising from the 1980–88 war. Iraq is also obligated by UN resolutions to pay for various UN agency activities.

### 40 SOCIAL DEVELOPMENT

A social security law passed in 1971 provides benefits or payments for disability, maternity, old age, unemployment, sickness, and funerals. This law applies to all establishments employing five or more people, but excludes agricultural employees, temporary employees, and domestic servants. This social insurance system is funded by employee contributions of 5% of their wages, and employer contributions of 12% of payroll. Oil companies are required to pay 25% of payroll. Men may retire at age 60 and women at 55 after they have worked for 20 years. Maternity benefits for employed women include 100% of salary for a period of 10 weeks. Work injury is covered and unemployment assistance is available.

The government claims to support equality for women, who make up about 20% of the work force. Laws have been passed protecting women from sexual harassment, permitting them to join the police and armed forces, and equalizing their rights in divorce, land ownership, taxation, suffrage, and election to political office. Despite these government claims of legal equality, severe discrimination against women remains. Women are not allowed to travel abroad unaccompanied. In 1990, a decree was passed that provides immunity to men who kill female family members who have committed an "immoral" act.

Although Iraq's constitution guarantees individual rights, the government sharply limits political freedoms and tolerates little public expression of dissent. Suspected political offenders are subject to arbitrary arrest and imprisonment, and torture is common in such cases. The government executes perceived or alleged opponents. Amputations of limbs and branding are used to punish those accused of serious crimes. In 1995, the death penalty was established for persons found to be in possession of stolen goods.

Gross human rights violations continue to be committed. Iraq's minority Kurd population faces serious forms of discrimination and human rights abuses. The Iraqi government continued to harass and threaten relief workers and UN personnel in the area. The Iraqi government has refused to cooperate with international human rights organizations or to allow the establishment of independent local ones. Human rights monitors are denied visas to enter the country and must base their reports on published

material and interviews with emigres and political opposition groups.

### 41 HEALTH

There are many well-trained Iraqi physicians; however, their effectiveness is limited by a lack of trained nursing and paramedical staff. Between 1985 and 95, 93% of the population had access to health care services. Private hospitals are allowed to operate in Baghdad and other major cities. Considerable effort has been made to expand medical facilities to small towns and more remote areas of the country, but these efforts have been hampered by a lack of transportation and a desire of medical personnel to live and work in Baghdad and the major cities. In 2000, 85% of the population had access to safe drinking water and 79% had adequate sanitation. Dentists and other specialists are almost unknown in rural districts. Child nutrition has been negatively affected by the aftermath of the Gulf War and UN sanctions. In a study of Iraqi children shortly after the war, 24% were malnourished or classified as stunted and 8% were in the wasted category. The UN Children's Fund has documented that 4,500 children under five die every month from hunger and disease. UN officials also estimate that the international trade embargo and the relative indifference of the regime cause the premature deaths of 4,000 to 5,000 sick and old Iraqis each month.

In 1991, Iraq had 10,900 physicians, 13,206 nurses, 1,719 pharmacists, and 1,628 dentists. As of 1999, there were an estimated 0.5 physicians and 1.4 hospital beds per 1,000 people. Iraq's 2002 birth rate was estimated at 34 per 1,000 people. Of married women (ages 15 to 49), 14% used contraception in 1989. Life expectancy in 2000 averaged 61 years. The fertility rate decreased from 7.2 in 1960 to 4.3 children in 2000 for each woman during childbearing years. In 1997, immunization rates for children up to one year old were: tuberculosis, 90%; diphtheria, pertussis, and tetanus, 92%; and measles, 98%. In 1999, there were 156 reported cases of tuberculosis per 100,000 people. The infant mortality rate in 2000 was 93 per 1,000 live births, and the general mortality rate was estimated at 6 per 1,000 people in 2002. As of 1999 the prevalence of HIV was less than 0.01 per 100 adults.

Tobacco consumption remained static between 1984 and 1994, when 3.1 kg (6.8 lbs) a year was consumed per adult.

### 42 HOUSING

In the last 20 years, living conditions for the vast majority of the population have improved greatly. Electricity and running water are normal features of all Iraqi villages in rural areas. Mud huts in remote places are rapidly being replaced by brick dwellings. Major cities like Mosul, Basra, and especially Baghdad have most of the amenities of modern living. Traditionally, Iraqis have lived in single family dwellings, but in the last 15 years, the government had built a number of high-rise apartments, especially in Baghdad. It had done so to control urban sprawl and to cut down on suburban service expenditures. From 1980–88, total housing units numbered 2,478,000 with 6.5 people per dwelling.

The 2003 invasion of Iraq by international coalition forces caused destruction and damage to a large portion of the housing sector, particularly in and around Baghdad. The UN responded to the crisis by providing construction materials through the Oil for Food Program. The housing sector had been part of this program since 2000. Through the program, about 64,932 housing units were built to accommodate about 551,922 people.

### 43 EDUCATION

Six years of compulsory primary education have been in effect since 1978. An estimated 44% of adults were illiterate in 2000 (males, 34%; females, 54%). In 1996, 2,903,923 students

attended 8,145 primary schools, with 145,455 teachers. Student-to-teacher ratio stood at 20 to 1. In that same year, 1,160,421 students attended secondary schools, with 62,296 teachers. The pupil-teacher ratio at the primary level was 21 to 1 in 1999. In the same year, 93% of primary-school-age children were enrolled in school, while 33% of those eligible attended secondary school.

Primary schools provide a six-year course, at the end of which the student must pass an examination to be admitted to secondary school. The curriculum is based on Western patterns but also includes religious teaching. The language of instruction is Arabic. Secondary schools have a three-year intermediate course, followed by a two-year course in preparation for entrance to college. A national examination must be passed at its end. Secondary education for girls dates from 1929. Traditional Quranic schools are nearly extinct.

Education at all levels from primary to higher education is free, and no private schools are permitted to operate. There are seven universities in Iraq, four of them in Baghdad. The University of Baghdad is the most important higher education institution in the country. Other universities include Mosul, al-Mustansiriyah, Basra, and as-Sulaymaniyah. In addition to these universities, there are 19 technical institutes throughout Iraq. In 1988, all higher-level institutions had 209,818 pupils and 11,072 instructors. Education in Iraq is under the control of the Ministry of Education and the Ministry of Higher Education and Research.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Baghdad, founded in 1961, housed 417,000 volumes in 2002. Two noteworthy academic libraries are the Central Library of the University of Baghdad (700,000 volumes) and the Central Library of the University of Mosul (943,000 volumes). One of the country's outstanding libraries is the Iraqi Museum Library (founded 1934), with modern research facilities and more than 229,000 volumes, many of them rare editions. The Directorate of Antiquities in Baghdad housed a library of 38,000 volumes. There are public library branches in many provincial capitals. Arsonists and looters ransacked the libraries of Iraq in 2003 following the war, and it is believed the damage is extensive.

With the exception of the National History Research Center and Museum and the National Museum of Modern Art, museums are under the control of the Department of the Directorate-General of Antiquities in Baghdad. Two of the most outstanding collections are at the Iraqi Museum in Baghdad, which contains antiquities dating from the early Stone Age, and the Mosul Museum. The Abbasid Palace Museum and the Museum of Arab Antiquities, both located in Baghdad, are housed in restored buildings from the 13th and 14th centuries, respectively. Iraq's museums and antiquities suffered extensive damage following the war in 2003. Looters and arsonists devastated the country's cultural heritage.

#### 45 MEDIA

In 1997, there were about 675,000 main telephone lines in use throughout the country. The government's Radio Baghdad transmits in Arabic from 39 transmitters, and also has English, Kurdish, and some other foreign-language broadcasts. As of 1998 there were 14 AM and 51 FM radio station and 13 government-operated television stations. In 2000, there were 222 radios and 83 television sets per 1,000 population. In 2001, there were 12,500 Internet subscribers served by one service provider. Access is made primarily through Internet cafés.

All communications media are owned and controlled by the government, and criticism of government policies is not permitted. Newspapers that failed to observe strict government censorship have been suspended. The two leading Arabic newspapers in 2002 were *Al-Thawra* (*The Revolution*,

circulation 250,000) and *Al-Jumburiyah* (*The Republic*, 150,000); the only English-language daily was the state-sponsored Baghdad Observer (22,000).

#### 46 ORGANIZATIONS

Chambers of commerce are active in Baghdad, Basra, and Mosul. Cooperatives, first established in 1944, have played an increasingly important social role, especially under the post-1968 Ba'ath government. There are many youth centers and sports clubs. Scouting programs are active. The General Federation of Iraqi Youth and the General Federation of Iraqi Women are government-sponsored mass organizations. The Women's Union of Kurdistan (WUK), established in 1989, works toward improving the lifestyle and social development of women by publishing educational magazines and presenting educational seminars on health, education, and legal issues. Red Crescent societies provide social services in many cities and towns.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism declined sharply during Iraq's occupation of Kuwait and the Gulf War. In 1998, 340,000 visitors arrived in Iraq, and tourist receipts totaled \$13 million, down from \$55 million in 1990. In 2000, 78,457 tourists visited Iraq. Many visitors from other Arab states are pilgrims to Islamic shrines. The other principal tourist attraction is visiting the varied archeological sites. Popular forms of recreation include tennis, cricket, swimming, and squash.

According to 1999 UN estimates, the cost of staying in Baghdad was approximately \$100 per day. The cities of Dohok, Erbil, and Suleimaniyah required an estimated daily expenditure of \$80.

#### 48 FAMOUS IRAQIS

The most famous kings in ancient times were Sargon (Sharrukin) of Akkad (fl.c.2350 BC), Hammurabi of Babylon (r.1792?-1750? BC), and Nebuchadnezzar II (Nabu-kadurri-utsur, r.605?-560? BC) of Babylon.

Under the caliphs Harun al-Rashid (ar-Rashid ibn Muhammad al-Mahdi ibn al-Mansur al-'Abbasi, r.786-809) and al-Mamun (abu al-'Abbas 'Abdullah al-Mamun, r.813-33), Baghdad was the center of the Arab scholarship that translated and modified Greek philosophy. A leading figure in this movement was Hunain ibn Ishaq (d.873), called Johannitius by Western scholastics. His contemporary was the great Arab philosopher Yaqub al-Kindi, whose catholicity assimilated both Greek philosophy and Indian mathematics. The founder of one of the four orthodox schools of Islamic law, which claims the largest number of adherents in the Muslim world, Abu Hanifa (d.767) was also a native Iraqi. Another celebrated figure in theology, 'Abd al-Hasan al-Ash'ari (c.913), who combated the rationalist Mu'tazila school, also lived in Baghdad; his influence still prevails in Islam. Al-Ghazali (Ghazal, d.1111), though Persian by birth, taught at the Nizamiyah University in Baghdad; he is one of the best-known Islamic philosopher-theologians. Iraq also produced famous mystics like Hasan al-Basri (642-728) and 'Abd al-Qadir al-Jilani (1077-1166); the latter's followers are numerous among Asian Muslims, and his tomb in Baghdad draws many pilgrims. Modern Iraq has produced no artist or writer famous outside the Arabic-speaking world.

Gen. Saddam Hussein (Husayn) al-Takriti (b. 1937), served as chairman of the Revolutionary Command Council and president of the country from 1979 until his ousting in 2003.

#### 49 DEPENDENCIES

Iraq has no territories or colonies.

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# ISRAEL

State of Israel

[Arabic] *Dawlat Israel*  
[Hebrew] *Medinat Yisrael*

**CAPITAL:** Jerusalem (Yerushalayim, Al-Quds)

**FLAG:** The flag, which was adopted at the First Zionist Congress in 1897, consists of a blue six-pointed Shield of David (Magen David) centered between two blue horizontal stripes on a white field.

**ANTHEM:** *Hatikvah (The Hope)*.

**MONETARY UNIT:** The new Israeli shekel (NIS), a paper currency of 100 new agorot, replaced the shekel (IS) at a rate of 1,000 to 1 in 1985; the shekel replaced the Israeli pound (IL) in 1980 at the rate of 10 pounds per shekel. There are coins of 5, 10, and 50 agora, 1 and 5 shekels and notes of 10, 50, 100, and 200 shekels. NIS1 = \$0.21978 (or \$1 = NIS4.55) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local units are used, notably the dunam (equivalent to 1,000 square meters, or about 0.25 acre).

**HOLIDAYS:** Israel officially uses both the Gregorian and the complex Jewish lunisolar calendars, but the latter determines the occurrence of national holidays: Rosh Hashanah (New Year), September or October; Yom Kippur (Day of Atonement), September or October; Sukkot (Tabernacles), September or October; Simhat Torah (Rejoicing in the Law), September or October; Pesach (Passover), March or April; Independence Day, April or May; and Shavuot (Pentecost), May or June. All Jewish holidays, as well as the Jewish Sabbath (Friday/Saturday), begin just before sundown and end at nightfall 24 hours later. Muslim, Christian, and Druze holidays are observed by the respective minorities.

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

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

Situated in southwestern Asia along the eastern end of the Mediterranean Sea, Israel claims an area of 20,770 sq km (8,019 sq mi), extending about 320 km (200 mi) N–S and 110 km (70 mi) E–W; at its narrowest, just north of Tel Aviv–Yafo, it is 19 km (12 mi) across. This total includes the Golan Heights area (1,176 sq km/454 sq mi), captured from Syria during the Six-Day War in 1967 and annexed on 14 December 1981; the annexation (technically described as the extension of Israeli “law, jurisdiction, and administration” to the region) was condemned by Syria and by unanimous resolution of the UN Security Council. The Labor Government in 1984 indicated that some (possibly all) of the Golan could be returned to Syria in a peace agreement. Other territories captured in 1967 and classified as administered territories were the West Bank (Judea and Samaria), 5,878 sq km (2,270 sq mi), and the Gaza Strip, 362 sq km (140 sq mi). (The Gaza Strip and Jericho area were transferred in 1994 to Palestinian administration). East Jerusalem, captured in 1967, was annexed shortly thereafter.

Israel is bordered on the N by Lebanon, on the E by Syria and Jordan, on the S by the Gulf of Aqaba (Gulf of Elat), on the SW by Egypt, and on the W by the Mediterranean Sea. Comparatively, the area occupied by Israel is slightly smaller than the state of New Jersey. The total land boundary length is 1,017 km (632 mi) and the coastline is 273 km (170 mi).

Israel’s capital city, Jerusalem, is located near the center of the country (including the West Bank).

## <sup>2</sup>TOPOGRAPHY

The country is divided into three major longitudinal strips: the coastal plain, which follows the Mediterranean shoreline in a southward widening band; the hill region, embracing the hills of Galilee in the north, Samaria and Judea in the center, and the

Negev in the south; and the Jordan Valley. Except for the Bay of Acre, the sandy coastline is not indented for its entire length. The hill region, averaging 610 m (2,000 ft) in elevation, reaches its highest point at Mt. Meron (1,208 m/3,963 ft). South of the Judean hills, the Negev desert, marked by cliffs and craters and covering about half the total area of Israel proper, extends down to the Gulf of Aqaba on the Red Sea. The Jordan River, forming the border between Israel (including the West Bank) and Jordan, links the only bodies of water in the country: the Sea of Galilee (Yam Kinneret) and the heavily saline Dead Sea (Yam ha-Melah), which, at 408 m (1,339 ft) below sea level, is the lowest point on the earth’s surface.

## <sup>3</sup>CLIMATE

Although climatic conditions are varied across the country, the climate is generally temperate. The coldest month is January; the hottest, August. In winter, snow occasionally falls in the hills, where January temperatures normally fluctuate between 4° and 10°C (40–50°F), and August temperatures between 18° and 29°C (65–85° F). On the coastal plain, sea breezes temper the weather all year round, temperature variations ranging from 8° to 18°C (47–65°F) in January and 21° to 29°C (70–85°F) in August. In the south, at Elat, January temperatures range between 10° and 21°C (50–70° F) and may reach 49°C (120°F) in August. The rainy season lasts from October until April, with rainfall averaging 118 cm (44 in) annually in the Upper Galilee and only 2 cm (0.8 in) at Elat, although dewfall gives the south another several inches of water every year.

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

The Bible (Deuteronomy 8:8) describes the country as “a land of wheat and barley, of vines and fig trees and pomegranates, a land of olive trees and honey.” The original forests, evergreen and



maquis, have largely been destroyed, but some 200 million new trees have been planted during this century, in a major reforestation program. Vegetation cover is thin except in the coastal plain, where conditions are favorable to the cultivation of citrus fruit, and in the Jordan Valley with its plantations of tropical fruit. Among surviving animals, jackals and hyenas remain fairly numerous. There are wild boar in the Lake Hula region. With the growth of vegetation and water supplies, bird life and deer have increased.

## 5 ENVIRONMENT

As of 2000, water pollution and adequate water supply are major environmental issues in Israel. Industrial and agricultural chemicals threaten the nation's already depleted water supply. Israel has only 1.9 cu km of renewable water resources with 64% used for farming activity and 7% used for industrial purposes. About 80% of the people living in rural areas have pure water. Air pollution from industrial sources, oil facilities, and vehicles is another significant environmental problem. In 1996, Israel's industrial carbon dioxide emissions totaled 52.3 million metric tons.

Reforestation efforts, especially since 1948, have helped to conserve the country's water resources and prevent soil erosion. Israel has reclaimed much of the Negev for agricultural purposes by means of large irrigation projects, thereby stopping the desertification process that had been depleting the land for nearly 2,000 years. Principal environmental responsibility is vested in the Environmental Protection Service of the Ministry of the Interior.

In 2001, 13 mammal species and 8 bird species were endangered. Nineteen species of plants were threatened with extinction. Endangered species included the northern bald ibis, South Arabian leopard, Saudi Arabian dorcas gazelle, and three species of sea turtles. The Mediterranean monk seal, cheetah, Barbary sheep, and Persian fallow deer became extinct in the 1980s. The Israel painted frog and Syrian wild ass have also become extinct.

## 6 POPULATION

The population of Israel in 2003 was estimated by the United Nations at 6,433,000, which placed it as number 98 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 28% 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 2.02%, with the projected population for the year 2015 at 7,772,000. The population density in 2002 was 314 per sq km (812 per sq mi).

It was estimated by the Population Reference Bureau that 91% of the population lived in urban areas in 2001. The capital city, Jerusalem, had a population of 668,000 in that year. Tel Aviv-Jaffa had a metropolitan population of 2,170,000 in 2002. Other large cities are Haifa, 249,800; Holon, 162,800; Bat Yam, 145,300; Petah Tiqwa, 150,800; Beersheba, 134,700; Rishon LeZiyyon, 150,400; and Netanya, 141,800. According to the United Nations, the urban population growth rate for 2000–2005 was 1.8%.

## 7 MIGRATION

In 1948, 65% of Israel's Jewish population consisted of immigrants; many of these 463,000 immigrant Jews had fled from persecution in Russia and, especially during the Nazi period, Central and Eastern Europe. Israel's declaration of independence publicly opened the state "to the immigration of Jews from all countries of their dispersion," and the 1950 Law of Return granted every returning Jew the right to automatic citizenship. The Nationality Law specifies other ways—including

birth, residence, and naturalization—that Israeli citizenship may be acquired. In the years 1948–92, Israel took in 2,242,500 Jewish immigrants; during 1948–51, the flow was at its heaviest, averaging 171,685 per year, about evenly divided between Eastern European Jews, who were war refugees, and Oriental Jews from ancient centers of the Arab world. In the years 1952–56, most immigrants came from French North Africa; in 1957–58 there was a renewed inflow from Eastern Europe. After a lull in 1959–60, the flow of immigrants was renewed, reaching substantial proportions by 1963, when 64,364 Jews arrived. Immigration fell to an annual average of 20,561 persons for 1965–68, rose to an average of 43,258 per year for 1969–74, then declined to an average of 24,965 for 1975–79. The number declined further to an average of 15,383 for 1980–89. As of March, 1995, around 525,000 immigrants had arrived in Israel since 1990. Most of these immigrants came from the former Soviet Union; this was the largest wave of immigration since the independence of Israel. In May of 1991, 14,000 Ethiopian Jews immigrated due to the Operation Solomon airlift. The proportion of Jewish immigrants from Europe and North America (as opposed to those from Asia and Africa) varied during the 1960s, but it rose from 40.4% in 1968 to 97.3% in 1990. (For this purpose the Asiatic republics of the USSR were counted as part of Europe). In 1984–85, some 10,000 Ethiopian Jews, victims of famine, were airlifted to Israel via Sudan. In 1992, the Jewish immigrant population was 39.4% of all Israeli Jews and 31.8% of all Israelis. A certain amount of emigration has always taken place, but the pace increased after 1975. In a typical year after 1980, about 10,000 Israelis were added to the number who had been away continuously for more than four years. From 1967 to 1992, Israel established 142 settlements in the occupied territories; about 130,000 Jews were living there by 1995.

Considerable Arab migration has also taken place, including an apparent wave of Arab immigration into Palestine between World War I and World War II. During the 1948 war there was a massive flight of an estimated 800,000 Palestinians. As of 1997 there were 3.2 million Palestinian refugees living in the West Bank, the Gaza Strip, Jordan, Syria, and Lebanon under the mandate of the Gaza-based United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). In 2000, the net migration rate for Israel was 9.1 migrants per 1,000 population. This is a significant drop from 18.7 per 1,000 in 1990. The number of migrants living in Israel in 2000 was 2,256,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Of the estimated population of 5,749,760 in 1999, 80.1% were Jewish (European/American-born 32.1%; Israeli-born 20.8%; African-born 14.6%; Asian-born 12.6%) and 19.9% were non-Jewish (mostly Arab).

The traditional division of the Jews into Ashkenazim (Central and East Europeans) and Sephardim (Iberian Jews and their descendants) is still given formal recognition in the choice of two chief rabbis, one for each community. A more meaningful division, however, would be that between Occidentals and Orientals (now also called Sephardim). Oriental Jews, who are in the majority, generally believe themselves to be educationally, economically, and socially disadvantaged by comparison with the Occidentals.

The minority non-Jewish population is overwhelmingly Arabic-speaking, but Israel's minorities are divided into a number of religious groups and include several small non-Arab national groups, such as Armenians and Circassians. The government of Israel has declared its intention to strive for equality between the Arab and Jewish sectors of the population. Israel's Arab citizens do not share fully in rights granted to, and levies imposed on, Jewish citizens. The rights of citizenship do not extend to Arabs

in the administered territories. The living standards of Arabs in Israel compare favorably with those of Arabs in non-oil-producing Arab countries, but they are considerably below those of the Jewish majority, especially the Ashkenazim. As a consequence of repeated wars between Israel and its Arab neighbors and the development of Palestinian Arab nationalism and terrorism, tensions between Jews and Arabs are a fact of Israeli daily life, especially in the West Bank and Gaza Strip.

## **9**LANGUAGES

The official languages are Hebrew and Arabic, the former being dominant. Hebrew is the language of most of the Old Testament; modern Hebrew is the biblical language as modified by absorption of elements from all historical forms of Hebrew and by development over the years. Arabic is used by Arabs in parliamentary deliberations, in pleadings before the courts, and in dealings with governmental departments, and is the language of instruction in schools for Arab children. English is taught in all secondary schools and, along with Hebrew, is commonly used in foreign business correspondence and in advertising and labeling. Coins, postage stamps, and bank notes bear inscriptions in Hebrew, Arabic, and Latin characters.

## **10**RELIGIONS

The land that is now Israel (which the Romans called Judea and then Palestine) is the cradle of two of the world's great religions, Judaism and Christianity. In the Hebrew Scriptures, Jewish history begins with Abraham's journey from Mesopotamia to Canaan, to which the descendants of Abraham would later return after their deliverance by Moses from bondage in Egypt. Jerusalem is the historical site of the First Temple, built by Solomon in the 10th century BC and destroyed by the Babylonians in 586 BC, and the Second Temple, built about 70 years later and sacked by the Romans in AD 70. Belief in the life, teachings, crucifixion, and resurrection of Jesus of Nazareth (who, according to the Christian Scriptures, actually preached in the Second Temple) is the basis of the Christian religion. Spread by the immediate followers of Jesus and others, Christianity developed within three centuries from a messianic Jewish sect to the established religion of the Roman Empire. Jerusalem is also holy to Islam: the Dome of the Rock marks the site where, in Muslim tradition, Mohammed rose into heaven.

Present-day Israel is the only country where Judaism is the majority religion, professed by 80% of the population; over one-fourth of all the world's Jews live there. Most in the Jewish population describe themselves as secular or traditional Jews. About 5% are Haredi (ultra-Orthodox) and about 13% are Orthodox. There are also a number of adherents who claim affiliation with Conservative, Reform, and Reconstructionist branches of Judaism, but these are not officially recognized.

Most Arabs are Sunni Muslims (14.6%). Christians (2.1%) are largely Greek Catholic or Greek Orthodox, but there are also Roman Catholics, Armenians, and Protestants. Other religions are claimed by the remaining 3.2% of the population. The Druzes, who split away from Islam in the 11th century, have the status of a separate religious community. The Baha'i world faith is centered in Haifa.

Freedom of religion is guaranteed. The Ministry of Religious Affairs assists institutions of every affiliation and contributes to the preservation and repair of their holy shrines, which are protected by the government and made accessible to pilgrims. Supreme religious authority in the Jewish community is vested in the chief rabbinate, with Ashkenazim and Sephardim each having a chief rabbi.

## **11**TRANSPORTATION

In 2002, there were an estimated 15,965 km (9,920 mi) of paved highways, including 56 km (35 mi) of expressways. With the

building in 1957 of a highway extension from Beersheba to Elat, the Red Sea was linked to the Mediterranean. Trackage of the state-owned railway totaled 647 km (402 mi), all standard gauge, in 2001. Railways, buses, and taxis formerly constituted the principal means of passenger transportation; however, private car ownership nearly tripled during the 1970s. In 2000 there were 1,754,058 motor vehicles, including 1,422,032 private cars and 322,026 trucks, taxis, and buses.

As of 2002, Israel had 16 merchant vessels, with a total capacity of 593,319 GRT. Haifa can berth large passenger liners and has a 10,000-ton floating dock, but Ashdod (south of Tel Aviv) has outstripped Haifa in cargo handled since the early 1980s. Elat (Eilat) is also a seaport with full freight services.

Israel had 54 airports in 2001, 28 with paved runways. Israel Inland Airlines (Arkia) provides domestic service. Israel Airlines (El Al), which was founded shortly after Israel became a nation in 1948 and is almost entirely owned by the government. Ben-Gurion International Airport between Tel Aviv and Jerusalem is the center of passenger and cargo operations; Israel is building a new Ben-Gurion International Airport Terminal. Another principal airport is J. Hozman at Eilat. In 2001 3,989,500 passengers were carried on scheduled domestic and international airline flights.

## **12**HISTORY

Archaeologists have established that the world's earliest known city was Jericho, on the present-day West Bank, built about 7000 BC. The formative period of Israel began in approximately 1800 BC, when the Hebrews entered Canaan, and resumed in approximately 1200 BC, when the Israelite tribes returned to Canaan after a period of residence in Egypt. At various times, the people were led by patriarchs, judges, kings, prophets, and scribes, and the land was conquered by Assyrians, Babylonians (or Chaldeans), Persians, Greeks, and Romans. The ancient period neared its end in AD 70, when the Roman legions conquered Jerusalem after an unsuccessful revolt and destroyed the Temple, and it ended in AD 135, when the Roman Empire exiled most Jews after another unsuccessful revolt, led by Simon Bar-Kokhba, and renamed the region Syria Palaestina, which eventually became Palestine. During the next two millennia there were successive waves of foreign conquerors—Byzantines, Persians, Arabs, Crusaders, Mongols, Turks, and Britons. Most Jews remained in dispersion, where many nourished messianic hopes for an eventual return to Zion; however, Jews in varying numbers continued to live in Palestine through the years. It is estimated that by 1900, only about 78,000 Jews were living in Palestine (less than 1% of the world Jewish population), compared with some 650,000 non-Jews, mostly Arabs.

Modern Zionism, the movement for the reestablishment of a Jewish nation, dates from the late 19th century, with small-scale settlements by Russian and Romanian Jews on lands purchased by funds from Western European and US donors. The movement received impetus from the founding of the World Zionist Organization in Basel, Switzerland, in 1897, under the leadership of Theodor Herzl. Zionist hopes for a Jewish national homeland in Palestine were greatly bolstered when the British government pledged its support for this goal in 1917, in the Balfour Declaration, which was subsequently incorporated into the mandate over Palestine (originally including Transjordan) awarded to the UK by the League of Nations in 1922. Under the mandate, the Jewish community grew from 85,000 to 650,000, largely through immigration, on lands purchased from Arab owners. This growth was attended by rising hostility from the Arab community, which felt its majority status threatened by the Jewish influx. In 1939, shortly before the outbreak of World War II, the British mandatory authorities issued a White Paper that decreed severe restrictions on Jewish immigration and a virtual freezing of land purchase and settlement. Armed Jewish



LOCATION: 29°29' to 33°17' n; 34°16' to 35°41' e. TERRITORIAL SEA LIMIT: 6 miles.

resistance to this policy, as well as growing international backing for the establishment of a Jewish state as a haven for the survivors of the Nazi Holocaust, finally persuaded the British government to relinquish the mandate.

Armistice agreements concluded in 1949 failed to provide the contemplated transition to peace, and sporadic Arab incursions along the borders were answered by Israeli reprisals. Tensions were exacerbated by Arab economic boycotts and by Egypt's nationalization of the Suez Canal on 26 July 1956. On 29 October 1956, Israel (with British and French support) invaded Egypt and soon gained control of the Gaza Strip and the Sinai Peninsula. Fighting ended on 4 November; Israel, under US pressure, withdrew from the occupied areas in March 1957 and recognized borders consistent with its military position at the end of the 1948 war. A UN Emergency Force (UNEF) patrolled the armistice line. On 29 November 1947, the UN General Assembly adopted a plan for the partition of Palestine into two economically united but politically sovereign states, one Jewish and the other Arab, with Jerusalem as an international city. The Arabs of Palestine, aided by brethren across the frontiers, at once rose up in arms to thwart partition. The Jews accepted the plan; on 14 May 1948, the last day of the mandate, they proclaimed the formation of the State of Israel. The next day, the Arab League states—Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, and Syria—launched a concerted armed attack. There followed a mass flight of hundreds of tens of thousands of Palestinian Arabs abroad. The war left Israel in possession of a much larger territory than that awarded the Jews under the UN partition plan; the planned Arab state failed to materialize, as Jordan annexed the West Bank. Meanwhile, the Palestinian refugees were resettled in camps on both banks of the Jordan River, in the Gaza Strip (then under Egyptian administration), in southern Lebanon, and in Syria.

Violations by both sides of the armistice lines persisted, and in May 1967, Egypt, fearing an Israeli attack on Syria, moved armaments and troops into the Sinai, ordering withdrawal of UNEF personnel from the armistice line, and closed the Strait of Tiran to Israeli shipping. On 5 June, Israel attacked Egypt and its allies, Syria and Jordan. By 11 June, Israel had scored a decisive victory in the conflict, since termed the Six-Day War, and had taken control of the Sinai Peninsula, the Gaza Strip, the Golan Heights, and the West Bank (including Jordanian-ruled East Jerusalem). The Security Council on 22 November unanimously adopted UK-sponsored Resolution 242, calling for establishment of a just and lasting peace in the Middle East, withdrawal of Israeli armed forces from territories occupied during the war, and acknowledgment of the "sovereignty, territorial integrity, and political independence of every State in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force." Israel indicated that return of the captured territories would have to be part of a general settlement guaranteeing peace; in 1967, the Israeli government began Jewish settlement in these areas; due in good part to the later encouragement of the Likud governments, by 1997 there were some 160,000 settlers in the occupied territories.

Serious shooting incidents between Egypt and Israel resumed in June 1969, following Egypt's declaration of a war of attrition against Israel. In response to a US peace initiative, a cease-fire took effect in August 1970, but tensions continued, and Palestinian Arab guerrillas mounted an international campaign of terrorism, highlighted in September 1972 by the kidnap and murder of Israeli athletes at the Olympic Games in Munich.

On 6 October 1973, during Yom Kippur, Egypt and Syria simultaneously attacked Israeli-held territory in the Sinai Peninsula and the Golan Heights. The Arabs won initial victories, but by 24 October, when a UN cease-fire took effect, the Israelis had crossed the Suez Canal and were 101 km (63 mi) from Cairo and about 27 km (17 mi) from Damascus. Under the impetus of

the “shuttle diplomacy” exercised by US Secretary of State Henry Kissinger, formal first-stage disengagement agreements were signed with Egypt on 18 January 1974 and with Syria on 31 May 1974. On 4 September 1975, a second-stage disengagement pact was signed in Geneva, under which Israel relinquished some territory in the Sinai (including two oil fields) in return for Egyptian declarations of peaceful intent, free passage of nonmilitary cargoes to and from Israel through the Suez Canal, and the stationing of US civilians to monitor an early warning system.

The 30-year cycle of Egyptian-Israeli hostilities was broken in November 1977, when Egyptian President Anwar al-Sadat (as-Sadat) paid a visit to Jerusalem on 19–21 November 1977, during which, in an address to parliament, he affirmed Israel’s right to exist as a nation, thereby laying the basis for a negotiated peace. In September 1978, at a summit conference mediated by US president Jimmy Carter at Camp David, Md., Israeli Prime Minister Menachem Begin and Sadat agreed on the general framework for a peace treaty which, after further negotiations, they signed in Washington, D.C. on 26 March 1979. The treaty provided for the withdrawal of Israeli forces from the Sinai over a three-year period and for further negotiations concerning autonomy and future status of Arab residents of the West Bank and the Gaza Strip, territories still under Israeli occupation. Israel withdrew from the Sinai oil fields within a year, and from the remainder of Sinai by 25 April 1982. However, the two countries failed to reach agreement on Palestinian autonomy in the West Bank and Gaza, and Israel continued to establish Jewish settlements in the West Bank despite Egyptian protests.

Israel’s relations remained tense with other Arab countries, which ostracized Egypt for signing the peace accord. In March 1978, Israel (which had long been supporting Lebanese Christian militias against the Palestine Liberation Organization—PLO—and its Muslim backers) sent troops into southern Lebanon to destroy PLO bases in retaliation for a Palestinian terrorist attack; Israel withdrew under US pressure. In April 1981, Israeli and Syrian forces directly confronted each other in Lebanon; Israeli jet aircraft shot down two Syrian helicopters in Lebanese territory, and Syria responded by deploying Soviet-made anti-aircraft missiles in the Bekaa (Biqā’) Valley, which Syria had been occupying since 1976. On 7 June 1981, Israeli warplanes struck at and disabled an Iraqi nuclear reactor under construction near Baghdad; the Israeli government claimed that the reactor could be employed to produce nuclear bombs for use against Israel.

Hostilities between Israel and the PLO and Syria reached a climax in early June 1982, when Israel launched a full-scale invasion of southern Lebanon, citing continued PLO shelling of the north and terrorist acts elsewhere. An estimated 90,000 troops rapidly destroyed PLO bases within a 40 km (25 mi) zone north of the Israeli border, captured the coastal towns of Tyre (Sur) and Sidon (Sayda), and then moved on to bomb and encircle Beirut by 14 June, trapping the main force of PLO fighters in the Lebanese capital and causing massive casualties and destruction. Meanwhile, Israeli warplanes destroyed Syria’s Soviet-built missile batteries in the Bekaa Valley—the announced objective of the invasion. A negotiated cease-fire was arranged by US envoy Philip Habib on 25 June, and more than 14,000 Palestinian and Syrian fighters were allowed to evacuate Beirut in late August. A multinational peacekeeping force of British, French, Italian, and US military personnel was stationed in the Beirut area.

Within Israel, the Lebanese war was divisive, and there were protest rallies against the Begin government. The protests increased when, after Israeli troops moved into West Beirut in the wake of the assassination of Lebanese President Bashir Gemayel, Christian militiamen were allowed to “mop up” remaining resistance in the Palestinian camps. The ensuing massacres, for which an Israeli government investigating commission

determined that some of Israel’s civilian and military leaders were indirectly responsible, led to the resignation of Ariel Sharon as defense minister. Subsequent Israeli attempts to extricate its occupying forces from Lebanon by negotiating an agreement for the withdrawal of all foreign forces were rejected by Syria. In September, Israel pulled back its forces from the Shuf Mountains, east of Beirut, to south of the Litani River. In 1985, withdrawal from southern Lebanon took place in stages over six months, punctuated by terrorist acts of Shi’i Muslim militants against departing Israeli troops, resulting in retaliatory arrests and detention of hundreds of Lebanese. Negotiations over a Trans World Airlines (TWA) jetliner hijacked en route from Athens to Rome by Shi’i militants in June 1985 led to gradual release by Israel of its Shi’i prisoners. In 1986, troubles continued despite the occupation of a swath of southern Lebanon, which Israel continued to term a “security zone,” as Shi’i militants and infiltrating Palestinian guerrillas continued to launch attacks. The war was a drain on the economy, already suffering from hyperinflation and huge foreign-exchange deficits. Prime Minister Begin resigned because of failing health in the autumn of 1983 and was replaced by Yitzhak Shamir, who, after inconclusive elections in 1984, was replaced on a rotational basis by Labor Party leader Shimon Peres. In 1986, a ground-breaking summit meeting took place when Prime Minister Peres traveled to Morocco for two days of secret talks with King Hassan II. In that year, Israel also improved relations with Egypt when Prime Minister Peres conferred with Egypt’s President Hosni Mubarek in the first meeting of the two nations since 1981. Shamir replaced Peres as prime minister in October 1986. Elections were again held with equally inconclusive results in November 1988, leading to a coalition government of the Labor and Likud parties. Four years later, Labor edged Likud in elections and was able to form a government supported by left-wing and religious parties. Yitzhak Rabin became Prime Minister with Shimon Peres as Foreign Minister; both were committed to reaching peace agreements with Arab antagonists.

In December 1987, unarmed Palestinians in Gaza began what became a multi-year series of stone-throwing riots against Israeli troops in the occupied territories. In this uprising (or *intifada* in Arabic), well over 1,000 Palestinians were killed and—by Palestinians—several hundred Israelis and Palestinian collaborators. Israeli use of lethal force, curfews, deportations, destruction of houses, and ten thousand detentions failed to stop the demonstrations while producing criticism abroad and anxiety at home. Waves of Jewish immigrants from the collapsing Soviet Union further provoked Palestinians.

During the Gulf War of 1991, Israel was hit by Iraqi missile attacks, demonstrating for some the state’s vulnerability and need to move toward peace with the Arabs. Prime Minister Shamir, who opposed the return of occupied territory, reluctantly accepted a US and Russian invitation to direct peace talks in Madrid in October 1991. These and subsequent negotiations produced few results until, under a Labor Government, Israeli and Palestinian representatives met secretly in Oslo to work out a peace agreement involving mutual recognition and transfer of authority in Gaza and Jericho to interim Palestinian rule with the final status of a Palestinian entity to be resolved in five years. The Oslo Accords were signed at the White House in Washington on 13 September 1993. Promises of international aid for the new Palestinian units poured in but the agreement was opposed by extremists on both sides and further set back by a massacre of 30 Muslims at prayer in the Hebron mosque on 25 February 1994 by a militant Israeli settler. Finally, delayed by several months, the withdrawal of Israeli forces from certain sectors and establishment of Palestinian self-rule took place on 18 May 1994. By 1997, six West Bank cities had been turned over to the Palestinian Authority. Israel balked at turning over control of Hebron even though it agreed to do so. A 1997 Hebron Protocol

split the city between Palestinian rule in one part of it and Israeli rule in the remaining 20%, to guarantee the security of settlers living in Jewish enclaves. All seven of the major cities controlled by the Palestinian Authority were reoccupied by Israel in 2002.

In November 1995, the greatest setback to the peace process occurred when a militant Israeli assassinated Prime Minister Yitzhak Rabin in retaliation for slowing Jewish settlement in the occupied territories and for his generally dovish policy toward the PLO. The nation then entered into a tumultuous period as Shimon Peres, Rabin's co-prime minister, took control of the government. Peres was not as popular as Rabin had been and in response to civil protest he called for early elections, which were held in May 1996. For the first time in these elections, Israelis were given the opportunity to directly elect their prime minister, and Peres, Likud, and Benjamin Netanyahu fought a bitter campaign, focusing mainly on the status of the occupied territories and the threat of terrorism from radical Palestinians. The prime minister race was very close and some news reports early on suggested, based on exit polling, that Peres had won. By morning of the next day, however, Netanyahu had emerged as Israel's first directly elected prime minister and Likud emerged with a slight majority (in coalition with a range of right wing parties) in the Knesset. Netanyahu immediately took a tough stance on the occupied territories, increasing the construction of Jewish settlements and enraging the Palestinians and the international community.

As expected, progress in the Middle East peace process slowed under Netanyahu. Hostilities between Palestinians and Israeli soldiers in the fall of 1996, following the opening of a tunnel in the Old City of Jerusalem, were the worst to occur since the days of the intifada. In 1997 and 1998 peace talks stalled over the terms of Israeli withdrawal from the West Bank. A new agreement, the Wye Memorandum, was reached at an October 1998 meeting in the United States between Netanyahu, Yassir Arafat, and President Bill Clinton. It set up a timetable for Israeli withdrawal from the West Bank. However, Netanyahu faced stiff opposition to the plan at home, and by the end of 1998, his governing coalition had collapsed, and implementation of the Wye plan was suspended until a new government could be formed following national elections the following May.

Labor candidate Ehud Barak triumphed in the May 1999 elections and formed a coalition government in July. In September, Barak and Arafat signed an agreement reviving the Wye accord (the Sharm el-Sheikh Memorandum), and in December peace talks between Israel and Syria—broken off in 1996—were resumed. In May 2000, Israel unilaterally withdrew from the nine-mile-wide security zone in southern Lebanon.

At the end of 1999 and into early 2000, three-way negotiations took place between Israel, the Palestinians, and the United States as mediator. In July 2000, President Clinton invited Barak and Arafat to Camp David, Md., for peace talks. The summit began on 11 July and ended on 25 July without an agreement being reached. President Clinton was determined to achieve a peace agreement before he left office, however, and he hosted talks with Israeli and Palestinian teams in Washington in December 2000. Negotiations between Israeli and Palestinian delegations were also held in Taba, Egypt, in late January 2001. By then President Clinton was out of office and incoming President George W. Bush took a position of nonengagement in the conflict.

On 28 September 2000, Likud leader Ariel Sharon visited the Temple Mount (Haram al-Sharif) in Jerusalem in what was seen as a provocative move, setting off large-scale Palestinian demonstrations, beginning the al-Aqsa intifada. By the end of 2000, Barak was presiding over an extremely violent situation. On 9 December 2000 Barak resigned, making a special prime ministerial election necessary, in which he stated he would seek a new mandate to pursue peace with the Palestinians. On 6 February 2001, Sharon was elected prime minister in a landslide

victory over Barak. Barak announced he would resign his seat in the Knesset, step down as head of the Labor Party as soon as a new government was formed, and retire from politics.

The intifada intensified, with Israel assassinating Palestinian militants and conducting air strikes and incursions into Palestinian self-rule areas; Palestinian militants increased suicide bomb attacks in Israeli cities. In spring 2002, Israel launched its largest military offensive in 20 years, since the invasion of Lebanon. In December 2001, Israeli forces besieged Arafat's headquarters in Ramallah, and as of February 2003, Arafat remained confined in his compound. Under Sharon, Israeli settlements in the occupied territories have increased, and he has demanded Arafat be replaced.

On 28 January 2003, Sharon's Likud Party won a strong victory in parliamentary elections, defeating the Labor Party and its chairman Amram Mitzna. The Shinui or "Change" Party, which campaigned on a platform of curtailing privileges and benefits the state offers to highly observant Orthodox Jews, also registered a clear win.

### 13 GOVERNMENT

Israel is a democratic republic, with no written constitution. Legislative power is vested in the unicameral Knesset (parliament), whose 120 members are elected for four-year terms by universal secret vote of all citizens 18 years of age and over, under a system of proportional representation. New elections may be called ahead of schedule, and must be held when the government loses the confidence of a majority of parliament.

The head of state is the president, elected by the Knesset for a five-year term. The president performs largely ceremonial duties and traditionally chooses the prime minister from the ruling political party. In 1996, however, a new law went into effect whereby the prime minister would be directly elected by the people. In May of that year, Benjamin Netanyahu became Israel's first directly elected prime minister. Three years later he was succeeded in that post by Ehud Barak. In March 2001, the Knesset voted to change the system of direct elections and restore the one-vote parliamentary system of government that operated until 1996. The law went into effect with the January 2003 elections, won by Likud. The cabinet, headed by the prime minister, is collectively responsible to the Knesset, whose confidence it must enjoy.

### 14 POLITICAL PARTIES

Israel's multi-party system reflects the diverse origins of the people and their long practice of party politics in Zionist organizations. The first five Knessets were controlled by coalitions led by the Mapai (Israel Workers Party), under Israel's first prime minister (1949–63), David Ben-Gurion, and then under Levi Eshkol (1963–69). The Mapai formed the nucleus of the present Israel Labor Party, a socialist party, which in coalition with other groups controlled Israel's governments under prime ministers Golda Meir (1969–74) and Yitzhak Rabin (1974–77 and 1992–95).

In September 1973, four right-wing nationalist parties combined to form the Likud, which thus became the major opposition bloc in the Knesset. Unlike the Israel Labor Party, the core of support of which lies with the Ashkenazim and older Israelis generally, the Likud has drawn much of its strength from Oriental Jewry, as well as from among the young and the less well-educated. Besides the State List and the Free Center, the Likud consists of the Herut (Freedom) Movement, founded in 1948 to support territorial integrity within Israel's biblical boundaries and a greater economic role for private enterprise, and the Liberal Party, formed in 1961 to support private enterprise, a liberal welfare state, and electoral reform. The Likud originally advocated retention of all territories captured in the 1967 war, as a safeguard to national security. It won 39 seats in

the 1973 elections and then became the largest party in the Knesset by winning 43 seats in the May 1977 elections, to 32 seats for the Israel Labor Party–United Workers (Mapam) alignment. Likud leader Menachem Begin became prime minister of a coalition government formed by Likud with the National Religious Party and the ultraorthodox Agudat Israel.

In elections on 30 June 1981, Likud again won a plurality, by taking 37.1% of the popular vote and 48 seats in the Knesset, compared with the Labor coalition's 36.6% and 47 seats. Begin succeeded in forming a new government with the support of smaller parties. The elections of July 1984 again left both Labor (with 44 seats) and Likud (with 41) short of a Knesset majority; under a power-sharing agreement, each party held an equal number of cabinet positions in a unity government, and each party leader served as premier for 25 months. Labor's Shimon Peres became prime minister in 1984, handing over the office to Likud's Yitzhak Shamir in late 1986. Elections in 1988 produced a similar power-sharing arrangement. In 1989, rotation was ended as Likud and Labor joined in a coalition. After a vote of no confidence, Likud formed a coalition of religious and right-wing parties which held power for two years until 1992. Elections in June gave Labor 44 seats (32 for Likud) and enabled it to form a coalition with Meretz (a grouping of three left-wing parties) and Shas (a religious party) and the support of two Arab parties.

After Netanyahu's governing coalition collapsed at the end of 1998, new elections were called for May of 1999. In the election for a new prime minister, Ehud Barak, heading a Labor-led center-left coalition (One Israel), defeated Netanyahu 56% to 44%. In the legislative elections, Barak's One Israel/Israeli Labor Party coalition won a plurality of 26 seats, followed by 19 for the Likud. After Barak resigned in December 2000, Ariel Sharon won a special prime ministerial election in February 2001 with the largest vote margin ever in Israeli politics. He took 62.4% of the vote to Barak's 37.6%. In 1995, Prime Minister Yitzhak Rabin was assassinated by an extremist Jew. Shimon Peres became Prime Minister and called for early elections, which were held in May 1996. The main issue of the election was Israel's response to terrorist attacks and the disposition of the occupied territories. Labor favored continued and increased negotiations with the PLO and the Palestinian Authority (PA), while Likud favored a tougher stance, increased settlement on occupied lands, and a rethinking of the Oslo accords—at the very least a slowing of the process of land-turnover. The elections were extremely close with the Likud-Geshe-Tsamet coalition winning a slim majority, or 62 seats. In a separate election, Benjamin Netanyahu was directly elected prime minister, the first such election in Israeli history after the passage of a 1996 law.

In March 2001, the Knesset voted to replace the system of direct election for the prime minister established in 1996 back to the parliamentary system. In parliamentary elections held in January 2003, Likud won 29.4% of the vote to Labor's 14.5%. The Shinui, or "Change" Party, came in third with 12.3% of the vote. Overall, the distribution of seats in the Knesset after the election was as follows: Right-wing parties held 45 seats (Likud 38, National Unity 7); center-left parties held 34 (Labor-Meimad 19, Shinui 15); left-wing parties held 17 (Meretz 6, Hadash 3, Am Ehad 3, Balad 3, United Arab List 2); religious parties accounted for 22 seats (Shas 11, National Religious Party 6, United Torah Judaism 5); and the immigrant party Israel Ba-Aliya held 2. Ariel Sharon was chosen prime minister.

## 15 LOCAL GOVERNMENT

Israel is divided into six administrative districts: Jerusalem, Tel Aviv, Haifa, Northern (Tiberias), Central (Ramle), and Southern (Beersheba). The occupied Golan Heights is a subdistrict of the Northern District. Each district is governed by a commissioner appointed by the central government. At the local level, government is by elected regional and local councils, which

govern according to bylaws approved by the Ministry of the Interior. Local officials are elected for four-year terms. Until 1994, Israel governed all of the occupied territories through the Civil Administration, which is responsible to the Ministry of Defense. Palestinian towns have Israeli-appointed mayors. Israeli settlers in the territories are subject to Israeli law. In 1994, Israel withdrew its forces from Gaza and Jericho in favor of an interim Palestinian self-governing authority. Those regions were reoccupied in 2002.

## 16 JUDICIAL SYSTEM

The law of Israel contains some features of Ottoman law, English common law, and other foreign law, but it is shaped largely by the provisions of the Knesset. Judges are appointed by the president on recommendation of independent committees. There are 29 magistrates' courts, which deal with most cases in the first instance, petty property claims, and lesser criminal charges. Five district courts, serving mainly as courts of appeal, have jurisdiction over all other actions except marriage and divorce cases, which are adjudicated, along with other personal and religious matters, in the religious courts of the Jewish (rabbinical), Muslim (*Shari'ah*), Druze, and Christian communities. Aside from its function as the court of last appeal, the supreme court also hears cases in the first instance brought by citizens against arbitrary government actions. The number of supreme court justices is determined by a resolution of the Knesset. Usually, twelve justices serve on the supreme court. There is no jury system. Capital punishment applies only for crimes of wartime treason or for collaboration with the Nazis, and has been employed only once in Israel's modern history, in the case of Adolf Eichmann, who was executed in 1962. In the administered territories, security cases are tried in military courts; verdicts may not be appealed, and the rules of habeas corpus do not apply. There are also labor relations and administrative courts.

There is no constitution, but a series of "basic laws" provide for fundamental rights. The judiciary is independent. The trials are fair and public. Legislation enacted in 1997 limits detention without charge to 24 hours. Defendants have the right to be presumed innocent and to writs of habeas corpus and other procedural safeguards.

## 17 ARMED FORCES

The defense forces of Israel began with the voluntary defense forces (principally the Haganah) created by the Jewish community in Palestine during the British mandate. Today Jewish and Druze men between the ages of 18 and 26 are conscripted for 36 and 24 months, respectively. Drafted Jewish women are trained for noncombat duties. Christians and Muslims may serve on a voluntary basis, but Muslims are rarely allowed to bear arms. All men and unmarried women serve in the reserves until the ages of 54 and 24, respectively. Men receive annual combat training until age 45.

In 2002, the Israeli army had 120,000 active duty soldiers and could mobilize as many as 530,000 more soldiers. Armaments included 3,750 main battle tanks. The navy had 6,500 regulars and 11,500 reservists; vessels included 3 submarines and 48 patrol and coastal combatants. The air force had 35,000 regulars, and 57,000 reserves. There were 454 functional combat aircraft, with 250 aircraft in reserve, and 135 armed helicopters. It is believed that Israel maintains a nuclear arsenal of more than 100 weapons. The reserve forces can be effectively mobilized in 48–72 hours. In addition, there are 8,050 paramilitary border police. The Ministry of Defense's expenditure was \$8.9 billion in 2001 or 8% of GDP.

## 18 INTERNATIONAL COOPERATION

Israel was admitted as the 59th UN member on 11 May 1949 and subsequently joined all the nonregional specialized agencies. It is also a permanent observer with the OAS and a member of the WTO. During the 1970s and early 1980s, Arab governments sought through the "oil weapon" to isolate Israel diplomatically and economically, but Israel's 1979 peace treaty with Egypt helped ease some of the pressure. The United States is Israel's major political, economic, and military ally. A number of African countries reestablished diplomatic relations with Israel in the 1980s; these ties had been broken in 1973, following the Arab-Israeli war. After signing peace accords with the Palestinians in 1993 and 1994, Israel opened liaison and trade missions in certain Arab countries, including Qatar and Oman. Israel also signed a peace agreement with Jordan in 1994, and the two nations exchanged ambassadors in 1995. Violence between Israel and the Palestinians resulting from the *intifada* that began in September 2000 increased tensions with the Arab world. In November 2002, 18 of the 22 members of the Arab League agreed to reactivate a half-century-old ban on trade with Israel.

## 19 ECONOMY

Since independence, Israel's economy has been faced with serious problems. The government makes large outlays for social welfare purposes, but is obliged to divert a considerable portion of its income to defense. In addition, traditional Middle Eastern sources of supply (e.g., of oil and wheat) and nearby markets for goods and services have been closed off. Israel must export on a large scale to maintain its relatively high standard of living; hence, it remains dependent on a continuing flow of investment capital and of private and public assistance from abroad.

The economy is a mixture of private, state, and cooperative ownership and holdings of the labor movement. In the first 35 years of Israel's existence, the number of industrial enterprises more than doubled; over 700 agricultural settlements were established; and there were notable advances in housing, transportation, and exploitation of natural resources. From 1975 to 1980, GNP grew at an annual rate of 3.1% (at constant prices). Between 1980 and 1985, real GNP growth was 10%. In the period 1990–1996, real GDP growth averaged 2.6%. It was below this average in the period after 1989 when the country had to absorb more than half a million new immigrants. Most of these immigrants were relatively well educated, however, adding to Israel's already considerable base of technologically aware workforce and population. Real growth in per capita income was 2% in 1990 and 1991, and increased to 3% in 1992, but then fell back to .9% in 1993.

The Oslo Peace Accords were signed 13 September 1993 between Israel and the PLO, ending the first *intifada* (uprising) that had begun in 1987. The Peace Treaty with Jordan followed quickly, signed 26 October 1994. The Oslo Accords granted the Palestinian Authority (PA) limited sovereignty over areas in the West Bank and Gaza within the context of a timetable of confidence-building expansions. From the inception of the Oslo process, the Israeli economy has wavered between hopeful spurts of growth and cooperation, as openings and investor confidence increase, and recession, as extremists on both sides have sought to shut the process down. The accords brought to a formal end the Arab Boycott of Israel (BOI), in place since 1951, with the shutdown of the Central Boycott Office (CBO) in Damascus. From 1992–95, Israeli exports to Asia grew by 86% and by 1999 accounted for 20% of Israel's total exports. In October 2000, however, following the eruption of the second *intifada* in September, the Arab League passed a resolution calling for the reinstatement of the BOI. This time, however, agreement was not unanimous among the 22 members, and international pressure is strong against it. In May 2002 in a meeting in Damascus 19 Arab

states drew up a list of firms to be blacklisted, but did not publish it. Tourism also benefited from the Peace Accords. Tourism grew to be Israel's second- or third-largest industry, reaching \$4.3 billion in 2000. In October 2000, however, the month following the eruption of the renewed *intifada*, the number of tourists declined 43%. An estimated 50,000 workers in the tourist industry were laid off, helping push unemployment from 8.8% in 2002 to 9.3% in 2001 and an estimated 10.5% in 2002. In 2002, the Israeli Ministry of Tourism estimated that revenues from tourism had fallen by over half, to \$2.1 billion. Foreign investment, once very hard to obtain, also grew substantially in years following the signing of the Oslo Accords.

The Oslo Accords were both a political agreement and an economic program that explicitly acknowledged that peace could not be attained or sustained without the establishment mutually beneficial economic relationships. Two annexes to the Oslo Accords laid out protocols for joint economic cooperation and regional development, listing specific projects to be pursued, including a Gaza seaport, a Gaza airport, a Mediterranean-Dead Sea Canal (MDSC) project, (that would also provide water desalinization and farm irrigation), and a Red Sea-Dead Sea Canal (RSDSC) project (similarly aimed at providing desalinization and crop irrigation), as well general provisions for the establishment of border and local industrial estates to encourage economic cooperation and investment. International donors pledged more than \$2.4 billion over the years 1994–99, much of which was to be used on the infrastructural projects identified in Oslo protocols. While the canal projects, which had been under consideration for many years, remained tied up in political and economic controversies, construction proceeded on the sea port and airport for Gaza, and the Kami Industrial Estate on the Gaza-Israeli border, funded primarily by aid from the US and the EU. In the years immediately following the Peace Accords, 1994 to 1996, real per capita GDP growth in Israel was propelled to a relatively high sustained average of 4.1% despite the continued heavy influx of immigrants from ex-Soviet countries. In 1995, the political process moved a step forward with an interim agreement, Oslo II, providing for elections under the PA. However, in November of that year, Israeli prime minister Yitzhak Rabin, who had received the Nobel in 1994 for his work on the Oslo Accords, was assassinated by a fundamentalist Yemeni Jew.

The process became increasingly hobbled by rising violence and distrust on both sides, and required the constant vigilance of both its external supporters, primarily the United States and the EU, as well as its domestic supporters, to keep it from being derailed. In May 1996, Likud leader Benjamin Netanyahu defeated Israel's other Nobel Prize recipient for the Oslo Accords, Shimon Peres, by less than 1% under revised election laws that provided for the direct election of the prime minister. For the next three years, real GDP growth moderated to an annual average of 2.87% in part because of the conservative government's greater wariness about moves to greater economic openness and cooperation. Also important, however, was the government's determined adherence to tight monetary and fiscal policies aimed at subduing Israel's chronically high inflation rate and tax burden. In the early 1980s, after the second oil shock, Israeli inflation had soared to triple digits, reaching a peak of 373.8% in 1985, the year before world oil prices collapsed. In 1986, inflation fell abruptly to 48%, and then, from 1987 to 1996, yearly inflation ranged from 10% to 20%. In 1997, Israel experienced its first single-digit level of inflation (9%) since 1970. Inflation rates continued to fall in 1998 and 1999, to 5.4% and 5.2%, respectively. Strict monetary policies were not reversed by the return of a Labor-led government in 1999, as inflation fell to a record low of 1.1% in 2000 despite a spurt of real GDP growth of 6.4%. In the recession that accompanied the emergence of the new *intifada* in 2000, inflation has remained low to moderate, at

1.1% for 2001 and an estimated 3.5% for 2002. The moderate real GDP growth 1997 to 1999 was not sufficient to prevent per capita income from declining during this period because of continued immigration from Russia and other Eastern European countries. Although down from earlier peaks, Israel reported 64,164 immigrants in 1998 and 77,000 in 1999. Per capita GDP, at \$17,720 in 1997, declined 2.5% to \$17,068 in 1998, and a further 1.8% to \$16,756 in 1999.

In 2000, increased investments, foreign and domestic, as well as decreased immigration, helped produce a 6.9% increase in per capita income, which reached a record \$17,913. In the political unrest that has ensued, however, per capita income has fallen back, first moderately, to \$17,158 in 2001 and then sharply, to \$15,895 in 2002, according to official government estimates. Israel's privatization program, begun in 1986, was given a strong impetus after the election of the Likud-led government in 1996, highlighted by the 1997 divestment of Bank Hapoalim, the country's largest bank. Privatization continued in 1998 and 1999 and the election of a Labor-led coalition in 1999 did not result in a reversal of the privatization initiatives.

Between 1986 and 2000, according to government statistics, the total extent of privatization amounted to \$7.7 billion, with 60% raised from 1998 to 2000. A total of 77 companies ceased to be state-owned during this period. In 1999, elections by a margin of over 12% replaced Netanyahu with Ehud Barak of the Labour Party, who reopened peace negotiations on virtually all fronts, seeking a final status agreement. Barak and Arafat signed the Sharm El-Sheikh Agreement on 5 September 1999 finalizing border adjustments in the peace accord with Jordan and setting the Oslo Accord's seventh anniversary, September 13, 2000, as the target for reaching a final status agreement.

For the first nine months of 2000, both Israel and the areas under PA control experienced strong growth spurts. Per capita income growth in Israel was in double digits, and there was aggressive investment in new businesses, stimulated by Israel's unilateral withdrawal from southern Lebanon in May 2000. Exports surged ahead 23% on top of increases of 11.6% in 1999 and 6.6% in 1998. In the same nine months, in the areas under PA control, GDP grew 7% and unemployment dropped to an estimated 10%, down from highs of 30% in the West Bank and almost 40% in Gaza in 1996. In July, 2000, however, Palestinian negotiators broke off US-sponsored negotiations at Camp David over the status of Jerusalem, scuttling progress toward final agreement. On 28 September 2000, opposition leader, Ariel Sharon, and some other Knesset members, paid a visit to the Temple Mount/Haram al-Sharif (i.e., the Noble Sanctuary, Arab name for the 35-acre complex that includes the remains of the Jewish temple), to symbolically assert their position that these holy places should remain under Israeli sovereignty. The day after Sharon's visit, on 29 September 2000, the second *intifada* erupted, bringing with it an abrupt reversal of the economic progress that had marked the first part of the year. Urgently renewed US-sponsored status negotiations failed to produce an agreement and were in any case allowed to lapse by the in-coming Bush administration.

On 6 February 2001 Ariel Sharon was elected prime minister, and on 4 March, three days before he assumed office, the violence of the *intifada* was ratcheted up to a new level as Hamas (the Islamic Resistance Movement) announced that they had not only sponsored the suicide bomb attack that took place that day in the resort town of Netanya, that it was only the first of 10 it had planned. The proliferation of suicide bomb attacks and Israel's retaliatory incursions into the Palestinian areas brought economic decline on both sides, particularly after the conflict was effectively globalized in the 11 September 2001 attacks on the World Trade Center in New York and on the Pentagon in Washington, D.C. Official statistics estimate that Israel's economy declined 0.6% in 2001 as foreign investment fell by 7%

and exports fell 16.7% from \$45 billion in 2000 to \$37.65 billion in 2001.

In 2002, the economy continued to stagnate at an estimated real GDP growth rate of .7%, and a decline in per capita income of over 11% from the peak reached in 2000. However, if the Israeli economy has stagnated under the impact of the renewed *intifada* and the closely related global slowdown following the 11 September terrorist attacks, the economy under PA control has all but collapsed. A World Bank report on Palestine in 2002 estimated that unemployment had risen from 10% in 2000 to 26% by December 2001, and that the average income had fallen 40%, from \$1,716 to \$1,030, well below the \$1,400 that had been reached five years before in 1996. Tourism, which is Israel's second- or third-leading industry, is the leading industry in PA areas, and it has doubly suffered from the loss of security and the destruction of infrastructure in Israeli retaliatory incursions. Virtually all of the projects built under the protocols of the Oslo Accords, including the Gaza seaport, Gaza airport, and Kami Industrial Estate, have been significantly damaged or destroyed in the fighting. In 2003, there are reports of a million Palestinians facing hunger. Although experience under the Oslo Peace process demonstrated that significant opportunities exist for economic growth and development, at the beginning of 2003, as a war with Iraq loomed on the region's horizon, it was unclear how permanent the damage had been to the peace process and to the possibilities of economic recovery.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Israel's gross domestic product (GDP) was estimated at \$122 billion. The per capita GDP was estimated at \$19,000. The annual growth rate of GDP was estimated at -1.1%. The average inflation rate in 2002 was 5.7%. 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 3% of GDP, industry 30%, and services 67%. Foreign aid receipts amounted to about \$27 per capita.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$10,684. 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 23% of household consumption was spent on food, 11% on fuel, 2% on health care, and 6% on education. The richest 10% of the population accounted for approximately 28.3% of household consumption and the poorest 10% approximately 2.4%.

## 21 LABOR

In 2000 the estimated workforce was 2.4 million people. Approximately 31% were employed in public services; 20% in manufacturing; 13% in commerce; 13% in finance and business services; 6% in transportation and communications; 6% in agriculture, with the remainder in other industries. The unemployment rate in 2002 was an estimated 10%.

The majority of Israeli workers, including those in agriculture, are union members belonging to the General Federation of Labor (*Histadrut*, founded by Jewish farm workers in 1920), which has a membership of 650,000. *Histadrut's* collective bargaining agreements are also available to non-members. The right to strike is exercised; 15 days notice must be provided to the employer. Palestinians in the occupied territories are permitted to organize their own unions and have the right to strike.

Children under 15 are not permitted to work except for school holidays. Employment for those between the ages of 16 to 18 is



restricted, and these laws are regularly enforced. The law provides for a maximum eight-hour day and 47-hour week, and establishes a compulsory weekly rest period of 36 hours. By collective agreement the private sector has a maximum workweek of 45 hours, and the public sector went to a 42-hour week. The minimum wage is adjusted periodically for cost of living increases. As of 2002, the minimum wage was about \$760 per month and was supplemented by allowances to provide a family with a decent standard of living.

## 22 AGRICULTURE

Between 1948 and 1998, the cultivated area was expanded from 165,000 to 437,000 ha (from 408,000 to 1,075,000 acres). Principal crops and 1999 production totals (in tons) were wheat, 80,000; cotton, 53,000; peanuts, 24,000; sunflowers, 20,000; and pulses, 9,000.

Owing to the uniquely favorable soil and climatic conditions, Israel's citrus fruit has qualities of flavor and appearance commanding high prices on the world market. Total citrus production in 1999 was 869,000 tons, with grapefruit accounting for 39%. Exports of citrus in 2001 generated \$123 million. Other fruits, and their 1999 production amounts (in thousands of tons) included: apples, 103; bananas, 109; avocados, 66; table grapes, 89; peaches, 47; olives, 45; plums, 20; pears, 24; and mangoes, 22.

The main forms of agricultural settlement are the *kibbutz*, *moshav*, *moshav shitufi*, and *moshava* (pl. *moshavot*). In the *kibbutz* all property is owned jointly by the settlement on land leased from the Jewish National Fund, and work assignments, services, and social activities are determined by elected officers. Although predominantly agricultural, many *kibbutzim* have taken on a variety of industries, including food processing and the production of building materials. Devoted entirely to agriculture, the *moshavim* (workers' smallholder cooperatives) market produce and own heavy equipment, but their land is divided into separate units and worked by the members individually. This form of settlement has had special appeal to new immigrants. The *moshavim shitufiyim* are 47 collective villages that are similar in economic organization to the *kibbutzim* but whose living arrangements are more like those of the *moshav*. The *moshavot* are rural colonies, based on private enterprise. They were the principal form of 19th century settlement, and many have grown into urban communities.

New immigrants settling on the land are given wide-ranging assistance. The Jewish Agency, the executive arm of the World Zionist Organization, absorbs many of the initial costs; agricultural credits are extended on a preferential basis, and equipment, seeds, livestock, and work animals are supplied at low cost.

Israeli agriculture emphasizes maximum utilization of irrigation and the use of modern techniques to increase yields. A national irrigation system distributed water to 199,000 ha (491,700 acres) in 1998, down from 219,000 ha (541,100 acres) in 1986 but still far exceeding the 30,000 ha (74,000 acres) served in 1948. Water is transported via pipeline from the Sea of Galilee to the northern Negev. More than 90% of Israel's subterranean water supply is being exploited. Agriculture accounts for over 60% of Israel's water consumption.

## 23 ANIMAL HUSBANDRY

There is little natural pasturage in most areas, and livestock is fed mainly on imported feeds and farm-grown forage. Domestic beef production only satisfies between 33% and 40% of demand. Livestock farmers are aided by subsidies. There are 2,500 sheep and goat farms raising 452,000 head, 42% by the Bedu population, 36% by the Jewish sector, and 22% by the Arab and Druze populations. In 2001 there were 29,275,000 chickens, 5,000,000 turkeys, 390,000 head of cattle, 155,000 pigs, 11,000

equines, and 5,300 camels. About 84,560 tons of eggs, 244,000 tons of poultry meat, and 56,500 tons of beef were produced in 2001. That year, milk and honey production were 1,211,000 and 3,000 tons, respectively.

## 24 FISHING

Jewish settlers introduced the breeding of fish (mostly carp) into Palestine. The total fish catch was 5,818 tons in 2000. In addition to carp, important freshwater fish include catfish, barbel, and trout. The marine catch consists mainly of gray and red mullet, rainbow trout, grouper, sardines, and bogue.

## 25 FORESTRY

Natural forests and woodlands cover about 132,000 ha (326,000 acres), mostly in the north. About 180 million trees were planted between 1902 and 1986. Roundwood production in 2000 was 113,000 cu m (4 million cu ft). Forestry production in 2000 included 109,000 cu m (3.8 million cu ft) of plywood and 58,000 cu m (2.1 million cu ft) of particleboard, and 275,000 cu m (9.7 million cu ft) of paper and paperboard.

## 26 MINING

Although Israel was not richly endowed with mineral resources, the Dead Sea was one of the world's richest sources of potassium chloride (potash), magnesium bromide, and other salts; more than 1% of the world's refractory-grade magnesia came from the Dead Sea. Israel was the second-largest producer of bromine, ranked sixth in potash production, and seventh in phosphate rock. The production of potash and phosphates was Israel's third-leading industry in 2002; ranking fifth through seventh were, respectively, the production of caustic soda, cement manufacture, and diamond cutting (from imported rough diamonds). Cut diamonds ranked third among export commodities in 2002, and chemicals ranked fifth. In 2000, the value of nonmetallic mineral products fell by 8.3%, and the value of production in the mining and quarrying industry fell by 2.3%. Mining and quarrying accounted for 2.7% of industrial production, while nonmetallic minerals accounted for 3.7%. Fertilizer exports earned \$418.4 million, out of \$28.3 billion in total exports; metal exports earned \$279.3 million, and crude fertilizers and minerals, \$175.2 million.

Mineral production in 2001 included: beneficiated phosphate rock, 3.51 million tons, down from 4.11 in 2000; potash, 1.77 million tons, up from 1.49 in 1997 (87% was exported); elemental bromine, 206,000 tons (90% was exported); caustic soda, 44,900 tons, up from 41,200 in 1999; and silica sand, 306,000 tons, up from 275,000 in 1997. Israel also produced, primarily for the construction sector, crude steel, refined secondary lead, magnesium metal, hydraulic cement, brick and kaolin clays, gypsum, lime, magnesia, marble, phosphatic fertilizers, phosphoric acid, salt (mainly marine), sand, crushed stone, sulfur, sulfuric acid, and crude construction materials. No fire clays were produced in 2000 and 2001, and no nitrogen in 1999–2001. Dead Sea Works Ltd., a subsidiary of Israel Chemicals Ltd., was the world's fourth-largest potash producer, and planned to increase capacity to 3.25 million tons per year, from 2.8. Although Israel did not mine diamonds, in 2001, 1.37 million carats of imported diamonds were cut, down from 2.37 million in 1997.

The Negev Desert contained deposits of phosphate, copper (low grade), glass sand, ceramic clays, gypsum, and granite. Most of the phosphate deposits, located in the northeastern Negev, were, at best, medium grade, and were extracted by open-pit mining. The government was the principal owner of most mineral-related industries. Privately held industries included the diamond cutting and polishing industry, and cement and potassium nitrate manufacturing.

## 27 ENERGY AND POWER

Israel's energy sector is largely nationalized and state-regulated, ostensibly for national security reasons. Since the return to Egypt in 1980 of the Sinai oil fields, Israel has had almost no fossil fuel reserves of its own, until the discovery of offshore natural gas reserves beginning in 2000. The reserves are estimated at 85 to 142 billion cu m. Natural gas reserves have also been discovered in Palestinian territorial waters off the Gaza Strip. Israel imports almost all its oil. In 2001, the country produced only 200 barrels per day of crude petroleum (compared with 1,000 barrels per day in 1986), while consumption of crude oil amounted to 278,000 barrels per day in the same year. Oil has been produced in the Negev desert since 1955, and exploration there continues.

A \$1.3 billion, 100,000-barrel-per-day oil refinery in Alexandria, Egypt, developed as an Egyptian-Israeli joint venture, began operations in April 2001. In June of the same year, Israel sold its 20% stake in the project to Egypt in a move widely regarded as related to the renewed hostilities between Palestinians and Israelis that had begun the previous autumn.

Nearly all electricity is supplied by the government-owned Israel Electric Corp., which uses imported oil and coal. Electricity is generated principally by thermal power stations. Generating capacity has quadrupled since 1970, reaching 9,136 MW by 2001 (70% coal-fired, 25% oil-fired, 5% gas fired); total production in 2000 amounted to some 40.4 billion kWh, of which nearly 100% was from fossil fuels. Consumption of electricity in 2000 was 34.9 billion kWh.

## 28 INDUSTRY

More than half of the industrial establishments are in the Tel Aviv-Yafo area, but a great deal of heavy industry is concentrated around Haifa. Most plants are privately owned. State enterprises are mainly devoted to exploitation of natural resources in the Negev; some other enterprises are controlled by the Histadrut. Israel is research and development-oriented. Hundreds of foreign companies have invested in Israel during the 1990s, the bulk in strategic high-technology projects in such fields as aviation, communications, computer-aided design and manufacturing (CAD/CAM), medical electronics, fine chemicals, pharmaceuticals, solar energy, and sophisticated irrigation. Over 88% of the increase exports in the 1990s.

Major expansion has taken place in textiles, machinery and transport equipment, metallurgy, mineral processing, electrical products, precision instruments, and chemicals. However, industry remains handicapped by reliance on imported raw materials, relatively high wage costs, low productivity, and inflation. Incentive schemes and productivity councils, representing workers and management, have been set up in an attempt to increase work output. Whereas in the past Israel's industry concentrated on consumer goods, by the 1980s it was stressing the manufacture of capital goods.

## 29 SCIENCE AND TECHNOLOGY

Israel manufactures and exports an expanding array of high-technology goods, especially for military purposes. In 1987-97, Israel spent 2.4% of GNP on research and development in science, engineering, agriculture, and medicine. National and local governments and industry shared equally in the funding. A privatization program, begun by the government, has resulted in the creation of many science and technology parks and high technology towns, like Migdal He'Emck. Israel has an advanced nuclear research program, and it is widely believed that Israel has the capacity to make nuclear weapons.

Among scientific research institutes are seven institutes administered by the Agricultural Research Organization; the Rogoff-Wellcome Medical Research Institute; institutes for petroleum research, geological mapping, and oceanographic and

limnological research directed by the Earth Sciences Research Administration; institutes of ceramic and silicate, fiber, metals, plastics, wine, and rubber research directed by the Office of the Chief Scientist, Ministry of Industry and Trade; the Institutes of Applied Research at the Ben-Gurion University of the Negev; the Israel Institute for Biological Research; the Israel Institute for Psychobiology; the National Research Laboratory; and the Soreg and Negev nuclear research centers attached to the Israel Atomic Energy Commission. The country has eight universities and colleges offering courses in basic and applied sciences; among them are the Weizmann Institute in Rehovot and the Technion-Israel Institute of Technology in Haifa. In 1987-97, science and engineering students accounted for 49% of all college and university students.

Immigration into Israel may be its best science and technology policy. Some consider this a "brain drain" in reverse and claim that it will help Israeli high technology competitiveness in the future. In 1998, high technology exports were valued at \$4.2 million and accounted for 20% of all manufactured exports.

## 30 DOMESTIC TRADE

Banks, commercial institutions, and the Histadrut have their headquarters in Tel Aviv-Yafo, the business capital. Supermarkets and department stores are on the increase; installment sales are widespread. Packaged goods are becoming more common, but many sales are still made in bulk. Cooperative societies market the agricultural produce of their affiliated settlements and farms. Tnuva, the Histadrut agricultural marketing society, sells most of Israel's farm products. Advertising media include newspapers, periodicals, posters, billboards, radio broadcasts, and motion picture theaters.

Larger shopping centers and malls are becoming more popular in the country. In 2002, there were about 200 malls nationwide, construction plans for several others. At least half of all food sales are through supermarket and retail chains, but small, open-air produce markets are still common. Foreign franchises have been well established since the mid-1980s, primarily in the fast-food and hardware industries.

Saturday closing is the custom for all shops, offices, banks, public institutions, and transport services, except in the Arab areas. Office hours are generally Sunday to Thursday, 8 AM to 5 PM. Retail hours run from 9 AM to 7 PM Sunday through Thursday and 9 AM to 2 PM on Fridays. On days preceding holidays, shops shut down about 2 PM, offices at 1 PM. Banks are open 8:30 AM to 12:30 PM and 4 to 5:30 PM; they close at noon on Fridays and days before holidays and have no afternoon hours on Wednesdays.

## 31 FOREIGN TRADE

Israel is a relatively small country with limited natural resources and an affluent, bourgeois citizenry; as such, it is highly dependent on international trade, both to supply its industry with natural resources, and to purchase its value-added products. In 2000, foreign trade amounted to 27% of national income. Exports that year totaled \$31.4 billion, up 19% from the previous year. Imports, meanwhile, also grew to \$35.7 billion. The vast majority (66%) of Israeli exports are manufactured goods and their primary destinations are the US and the EU, which together buy 65% of Israel's exports. Imports are primarily industrial resources (63%)—other large sectors are capital goods (19%) and consumer products (11%).

Cut diamonds top the list of Israel's export commodities (25%), reflecting 17.5% of the world's total diamond exports. Machinery and equipment, including telecommunications equipment (13.6%) and other electrical machinery (11.3%) are important exports.

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

Consumer goods	10.6%
Food	4.5%
Fuels	9.8%
Industrial supplies	38.9%
Machinery	26.7%
Transportation	9.2%
Other	0.3%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	11,734	6,641	5,093
Belgium	1,873	3,548	-1,675
China (inc. Hong Kong)	1,646	1,501	145
Germany	1,521	2,672	-1,151
United Kingdom	1,358	2,712	-1,354
Netherlands	899	1,437	-538
Italy	803	1,721	-918
France	754	1,158	-404
India	557	535	22
Switzerland	502	1,918	-1,416

### 32 BALANCE OF PAYMENTS

Israel's foreign trade has consistently shown an adverse balance, owing mainly to the rapid rise in population and the expansion of the industrialized economy, requiring heavy imports of machinery and raw materials. The imbalance on current accounts has been offset to a large extent by the inflow of funds from abroad. Deficits are often offset by massive US aid and American Jewish philanthropy. Even with these funds, however, Israel has in recent years been running increasingly larger deficits, reaching 4.7% of GDP in 1995. Financing this deficit is easier on Israel than on many nations primarily because of its relationship with the US. Foreign direct investment reached a record \$5 billion in 2000, and total foreign investment stood at a record \$9 billion.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Israel's exports was \$28 billion while imports totaled \$30.8 billion resulting in a trade deficit of \$2.8 billion.

The International Monetary Fund (IMF) reports that in 2001 Israel had exports of goods totaling \$27.7 billion and imports totaling \$30.9 billion. The services credit totaled \$12 billion and debit \$12.6 billion. The following table summarizes Israel's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,852</b>
Balance on goods	-3,264
Balance on services	-572
Balance on income	-4,414
Current transfers	6,399
<b>Capital Account</b>	<b>681</b>
<b>Financial Account</b>	<b>-110</b>
Direct investment abroad	-1,135
Direct investment in Israel	3,224
Portfolio investment assets	-1,199
Portfolio investment liabilities	656
Other investment assets	-2,850
Other investment liabilities	1,194
<b>Net Errors and Omissions</b>	<b>1,477</b>
<b>Reserves and Related Items</b>	<b>-196</b>

### 33 BANKING AND SECURITIES

The Bank of Israel, with headquarters in Jerusalem, began operations as the central state bank in December 1954. Total banking assets at year-end 2001 were NIS435 billion. The bank issues currency, accepts deposits from banking institutions in Israel, extends temporary advances to the government, acts as the

government's sole banking and fiscal agent, and manages the public debt. Among the largest commercial banks are the Bank Leumi, the Israel Discount Bank, and the Histadrut-controlled Bank Hapoalim. There were 24 licensed commercial banks in 1997; one investment bank; and nine mortgage banks. There are also numerous credit cooperatives and other financial institutions. Among the subsidiaries of commercial banks are mortgage banks (some of which were also directly established by the government). The largest of these specialized institutions, the Tefahot Israel Mortgage Bank, provides many loans to home builders.

Industrial development banks specialize in financing new manufacturing enterprises. The Industrial Bank of Israel, formed in 1957 by major commercial banks, the government, the Manufacturers' Association, and foreign investors, has received aid from the IBRD and has played a major role in the industrial development of the Negev area. The government-owned Bank of Agriculture is the largest lending institution in that sector. The Post Office Bank, similar to France's La Poste, is concerned mainly with clearing operations, savings, sale of savings certificates, and postal orders.

The structure of the banking industry is based on the central European model of "universal banking," whereby the banks operate as retail, wholesale, and investment banks, as well as being active in all main areas of capital market activity, brokerage, underwriting, and mutual and provident fund management. However, the banks are barred from insurance operations, other than as owners of insurance agents, and have only recently been allowed to enter the pension market.

The Bank of Israel's power to fix the liquidity ratio that banks must maintain against deposits has been an important instrument in governing both volume and types of loans. Legal interest rate ceilings formerly were 10% on loans to industry and agriculture and 11% for commercial loans, but in the early 1980s, rampant inflation caused the large commercial banks to raise the interest rate to 136%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$9.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$114.2 billion. In the financial sector, the banks have benefited from a very slow program of financial deregulation and the absence of foreign competition; until 2000, the only foreign bank licensed to operate in Israel was the Polish PKO Bank, more of a historical curiosity than a serious commercial consideration. However, as deregulation progressed, the prospect of foreign ownership of Israeli banks, in part or whole, grew more real. In 2000, Citibank set up a full branch in Israel, the first major international bank to do so; HBSC followed soon afterward, and Bank of American has also set up a branch office there.

Growing activity on the Israeli securities market made it necessary to convert the rather loosely organized Tel Aviv Securities Clearing House into the formally constituted Tel Aviv Stock Exchange (TASE) in 1953. A further expansion took place in 1955, when debentures linked either to the US dollar or to the cost-of-living index-with special tax privileges-made their first appearance on the market. The market is largely devoted to loans of public and semipublic bodies, with provident funds and banks acquiring most of the securities placed. There is only one quotation daily for each security.

By 1983 the price of bank shares was steadily becoming more detached from their true value. When it became obvious in 1983 that the government would have to devalue its currency, many people began to liquidate their holdings of shekel-denominated assets in favor of foreign currency. The assets most widely held and most easily liquidated were bank shares. The selling wave began in the summer of 1983 and peaked in October, forcing the government to intervene. The closing of the TASE, on 6 October

1983, became known as the “economic day of atonement” and represented the end of the speculators’ paradise created and supported by leading Israeli banks.

By the mid-1990s, as Israel moved to liberalize its economy, the banking sector underwent significant reconstruction which continues as 2002. In two sell-offs in 1997 and 1998, the government divested itself of a majority of Bank Hapoalim. It also sold sizeable shares of United Mizrahi Bank, Israeli Discount Bank, and Bank Leumi, in the hopes of shedding all remnants of ownership in these banks. In addition to bank privatization, the Israeli government moved to reduce capital markets regulations.

### Occupied Territories

In 1994 the Palestinian Authority (PA) began to take over the management of an economy with a limited capacity to support its expanding population. The PA has acted within the constraints of the economic protocol to revive the financial sector. The reconstruction effort requires the creation of financial markets and institutions that perform the key functions of supplying liquidity, encouraging savings and investments, and facilitating the management of risk.

In expectation of a boom in the financial sector, a number of Jordanian and Palestinian banks opened, or reopened, branches in the West Bank and Gaza. By 1996, 42 branches of 10 banks were operating. The banks have mainly limited themselves to establishing checking accounts and accepting deposits, specifically non-interest bearing accounts. Despite their success in attracting deposits from Palestinians, the banks have maintained a limited role in lending; at the end of March 1995, total outstanding loans by the banks accounted for only 30% of total assets and 35% of total customer deposits. The reluctance to invest locally stems from doubts over the political environment and it is widely believed that banks are investing abroad, particularly in Central Bank of Jordan treasury bills.

A key factor in the success of the banks will be the supervisory activities of the Palestinian Monetary Authority (PMA), set up as a result of the Paris protocol. The PMA has most of the functions of a central bank. It is empowered to act as the PA’s adviser and sole financial agent; to hold its foreign currency reserves; to regulate foreign-exchange dealers; and to supervise the banking sector, as the self-rule areas come under PA jurisdiction. However, in the absence of a Palestinian currency, the PMA’s ability to be a lender of last resort is questionable. In 1996 the reality was that the PMA had no influence over the areas still under Israeli control and lacked a proper regulatory framework. Yet, since 1995, all money-changers have been required to put up capital of between \$200,000 to \$1 million, to pay permit and other fees, and to deposit 30% of their capital with the PMA.

At the end of 1996, plans for a Middle Eastern Development bank, supported by Jordan, Egypt, Israel, and the PA, were close to collapse, just a few weeks after the bank’s official registration at the UN. This was the verdict following the US Congress’s refusal to include provision for financing for the bank in an appropriations bill.

The Arab Palestine Investment Bank (APIB), scheduled to open in early 1997, held its first annual general meeting in Ramallah on 15 September 1996 and its first board meeting in Amman the next day. The bank, with paid-up capital of some \$15 million, has four principal shareholders, Jordan’s Arab Bank (55%), the International Finance Corp. (25%), the German Investment and Development Co. (15%), and the Palestinian private-sector Enterprise Investment Co. (5%). Total deposits of the Palestinian banking system expanded by over 125% during the year ended June 1996, reaching \$2.06 trillion. However, it is estimated that over half the local deposits are invested abroad, while only \$300 million have been loaned internally to the Palestinians.

## 34 INSURANCE

The State Insurance Controller’s Office may grant or withhold insurance licenses and determine the valuation of assets, the form of balance sheets, computations of reserves, and investment composition. Automobile liability insurance, workers’ compensation, and aviation liability are compulsory. War-damage insurance is compulsory on buildings and also on some personal property.

The insurance sector is dominated by a few large firms, of which Migdal and Clal Insurance are the most prominent. However, the easy, cartel-like conditions that have characterized the sector for many years are beginning to crumble and new direct insurance companies are gaining market share. In 1997, the US-based AIG group entered the fray, via a direct insurance joint venture with an Israeli communications company, Aurec, which signaled the opening up of the industry to much greater competition from both domestic and foreign entities.

## 35 PUBLIC FINANCE

Israel has the most advanced economy in the Middle East, although the country has been plagued with political and social woes for much of its independence. The onset of the intifada in September 2000 threatened to reverse much of the economic progress that had been made in the prior few decades. The violence has left several industries, especially the tourism sector, in critical states. Also, Israel’s sizeable external debt, which was equivalent to about 38% of GDP in 2000, has put a damper on the economy’s expansion.

The US Central Intelligence Agency (CIA) estimates that in 2000 Israel’s central government took in revenues of approximately \$40 billion and had expenditures of \$42.4 billion. Overall, the government registered a deficit of approximately \$2.4 billion. External debt totaled \$42.8 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	100.0%	40,000
Tax revenue	82.9%	33,161
Non-tax revenue	11.5%	4,610
Grants	5.6%	2,230
EXPENDITURES	100.0%	42,441
General public services	2.3%	967
Defense	17.1%	7,255
Public order and safety	3.6%	1,538
Education	13.9%	5,912
Health	13.5%	5,705
Social security	28.0%	11,864
Housing and community amenities	3.0%	1,279
Recreation, cultural, and religious affairs	0.9%	369
Economic affairs and services	5.7%	2,418
Other expenditures	0.9%	368
Interest payments	11.2%	4,765

## 36 TAXATION

Israel’s population is heavily taxed. There are personal income taxes on gross income from employment, trade, business, dividends, and other sources, with limited deductions. Rates range from 15–50%, with the highest rate for amounts over NIS172,800 per year. Special tax concessions are granted to residents in border settlements, new settlements, and the Negev. Taxes of salaried persons are deducted at the source; self-employed persons make advance payments in 10 installments, subject to assessment. Also levied are a value-added tax (VAT) of

17%, a purchase tax, various land taxes, and a national health insurance premium tax on a rising scale to 4.8%.

Municipalities and local and regional councils levy several taxes. There is an annual business tax on every enterprise, based on net worth, annual sales volume, number of employees, and other factors. General rates, a real estate tax (commonly based on the number of rooms and the location of the building), and water rates are paid by the tenants or occupants rather than the owners.

### 37 CUSTOMS AND DUTIES

Israel has a single-column import tariff based on the Brussels nomenclature classification. Ad valorem rates predominate, although specific and compound rates are also used. Most basic food commodities, raw materials, and machinery for agricultural or industrial purposes are exempt from customs duties. The highest rates are applied to nonessential foodstuffs, luxury items, and manufactured goods that are of a type produced in Israel. There are also a 17% value-added tax (VAT), which is levied on virtually all commodities except fresh fruits and vegetables, and a purchase tax ranging from 5–90% on most consumer goods.

A free-trade agreement between Israel and the then-European Community (today, the European Union) took effect on 1 July 1975. Under this agreement, EC tariffs on Israel's industrial exports were immediately reduced by 60% and were subsequently eliminated. Preferential treatment has also been extended to Israel's agricultural exports. In return, Israel has granted concessions to the European Union on many categories of industrial and agricultural imports and agreed to gradually abolish its customs duties on imports from the European Union.

Israel also belongs to the World Trade Organization (WTO) and operates its trade regime according to WTO guidelines. Most significantly, the WTO calls for the elimination of non-tariff barriers. Israel also signed a free trade agreement with the United States in 1985, which called for the elimination of all remaining duties on US-made products by 1 January 1995. However, Israel and the United States differ on the interpretation of the treaty and it has yet to be fully implemented.

### 38 FOREIGN INVESTMENT

Apart from reparations, capital imports mainly consist of long-term loans and grants designed for investment by the government or the Jewish Agency.

A 1951 law was designed to encourage foreign investment in those industries and services most urgently required to reduce Israel's dependence on imports and to increase its export potential. Applying mainly to investments in industry and agriculture, the law offers such inducements as relief from property taxes during the first five years, special allowances for depreciation, exemption from customs and purchase tax on essential materials, and reductions in income tax rates. In a further effort to attract foreign investment, the government approved the "Nissim Plan" in 1990. This plan gives the investor the option of state loan guarantees for up to two-thirds of a project or the bundle of benefits offered under the "Encouragement of Capital Investments Law." A 1985 US–Israeli Free Trade Area (FTA) agreement reduces tariffs and most non-tariffs barriers for US firms. Israel also has an FTA agreement with the EU under which tariffs on industrial products and certain agricultural products fell to zero on 1 January 1989. In 1995, the most current year for which statistics are available, Israel attracted \$2.5 billion in foreign investment. This figure came on the heels of several years of economic growth and fiscal austerity.

### 39 ECONOMIC DEVELOPMENT

Economic policy is dictated by goals of national security, full utilization of resources, integration of immigrants, and institution of a broad welfare program. The urgency of these goals imposes

responsibilities on the government for planning, financing, and directly participating in productive activities. And, in fact, government infrastructure development since 1990 has played a large part in Israel's powerful economic performance in recent years. Major government projects include an expansion of the Ben-Gurion Airport, a subway for Tel-Aviv, a tunnel through Mt. Carmel, and a major new north-south highway.

In the years immediately following independence, the government influenced the setting in which private capital functions, through differential taxation, import and export licensing, subsidies, and high protective tariffs. The 1962 revaluation of the Israeli pound was accompanied by a new economic policy aimed at reduction of protective tariffs, continued support of development, planning and implementation of long-range development, and maximization of efficiency. Subsequently, the government has periodically decreed further monetary devaluations, new taxes, and other austerity measures designed to curb consumption and stimulate exports. By the mid-1990s, the Israeli government was actively engaged in an economic liberalization program that is a stark contrast from the largely state regulated economy of Israel's first few decades.

### 40 SOCIAL DEVELOPMENT

Aside from supervising a wide network of public and private social welfare agencies, the Ministry of Labor and Social Welfare maintains special enterprises employing blind and handicapped people, operates institutions for mentally and physically handicapped children, and administers a nationwide preventive service for problem children and youth.

Special legislation has established the legal right to assistance of persons incapacitated for work, of survivors of those who died in state service, and under certain conditions, of persons whose claims antedated their immigration to Israel. Pensions have thus been paid to persons disabled while fighting with the Allied forces in World War II and to those invalidated as a result of Nazi persecution.

Israel has a universal social insurance system that covers all residents aged 18 and over including housewives. Benefits include old age pensions, disability, medical care and monthly allowances for large families. Employee-based programs include maternity benefits, worker's compensation for injuries, and unemployment benefits. These programs are funded by contributions by employees, employers and the government. Pensions are set at a rate of 16% of average wage; 24% including income supplement. The National Insurance Institute is directly under the minister of labor and is governed by a 42-member council representing government, labor, and employers.

The Jewish Agency is primarily responsible for the initial phases of reception and absorption of immigrants. Hadassah provides vocational guidance and training to youth, and the Women's International Zionist Organization is active in family and child welfare. Mo'etzet Hapo'alot (Women's Workers Council), a Histadrut affiliate, is active in this area, along with Youth Aliyah, which operates a system of children's villages.

A series of laws have been enacted to protect women's rights including the Equal Rights for Women Law (1951) and the Employment of Women Law (1954), which requires equal pay for equal work. In practice, women receive lower wages than men. Legislation mandating affirmative action in the civil service and in government-owned companies was passed in 1995. Legislation has also been passed to protect women outside of the workplace. In 1991, the Domestic Violence Law strengthened the ability of the courts to protect women from abusive husbands. In 1993, common law spouses were permitted to take their partners' family names, and a new law barred discrimination in unemployment compensation for elderly female citizens. However, discrimination against women persists in many family and divorce matters. The courts that deal with these cases are

bound by religious laws that generally favor men. A 1995 law gave rabbinical courts the power of imposing expanded civil sanctions on husbands in cases where the wife has ample grounds for divorce but cannot obtain one. Jewish women are subject to military draft, and can volunteer to serve in combat units.

The subject of human rights in Israel and the administered territories has aroused much controversy, with international organizations citing police harassment of Arabs, especially on the West Bank and the Gaza Strip, and Israeli government officials pointing to the Arab terrorist threat. Within Israel, freedom of political expression is fully protected, and all shades of opinion are expressed; such guarantees do not extend to the administered territories, however, and the press, including foreign correspondents, is also monitored and censored for security reasons. Israeli Arabs face some discrimination in employment, housing and education.

The use of limited physical force during interrogations has been legal, but a high court ruling banned a variety of specific abuses, including sleep deprivation and violent shaking. Administrative detention without trial remains legal, but it is rarely used. Prison conditions for Palestinians have improved but still do not meet all international standards.

#### 41 HEALTH

The Ministry of Health supervises all health matters and functions directly in the field of medical care. As of 1999 total health care expenditure was estimated at 9.5 % of GDP. The Arab Department of the Ministry of Health recruits public health personnel from among the Arab population and its mobile clinics extend medical aid to Bedouin tribes in the Negev. In 2000, the infant mortality rate was 6 per 1,000 live births. Life expectancy was 78 years for both men and women. The fertility rate has decreased steadily over the years from 3.9 in 1960 to 2.8 children in 2000 for each woman during childbearing years. As of 1999, there were an estimated 3.9 physicians and 6 hospital beds per 1,000 people. The Ministry of Health also operates infant welfare clinics, nursing schools, and laboratories. The largest medical organization in the country, the Workers' Sick Fund (Kupat Holim, the health insurance association of Histadrut), administers hospitals, clinics, convalescent homes, and mother-and-child welfare stations.

The infant mortality rate was 6 per 1,000 live births in 2000. The maternal death rate is the lowest in the Middle East and North Africa. In 1998, 8 maternal deaths per 100,000 live births were documented. As of 2002, Israel's birth and death rates were estimated respectively at 18.9 and 6.2 per 1,000 people. Between 1990-94, immunization rates for children up to one year old were: diphtheria, pertussis, and tetanus, 92%; polio, 93%; and measles, 95%.

As of 1999 the number of people living with HIV/AIDS was estimated at 2,400 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.08 per 100 adults.

Tobacco consumption has decreased from 2.6 kg (5.7 lbs) to 2.4 kg (5.3 lbs) a year per adult in 1995. Between 1986 and 1994, 38% of men and 25% of women were smokers.

#### 42 HOUSING

Israel suffered from a severe housing shortage at its creation. Despite an extensive national building program and the initial allocation of some abandoned Arab dwellings to newcomers, in early 1958, nearly 100,000 immigrants were still housed in transit camps. By the mid-1960s, however, the extreme housing shortage had been overcome and newcomers were immediately moved into permanent residences. From 1960 to 1985, a total of 943,350 housing units were constructed. In 1986, 94% of all housing units had piped water, 58.2% had flush toilets, and 99% had electric lighting. Between 1990-2001, a surge of immigration

from the former Soviet Union and Ethiopia resulted in a dramatic increase in housing demand. The government responded with mortgage packages making it possible for new immigrants to afford housing.

As of the 1995 census, there were about 1,639,410 residential dwellings throughout the nation. In 1996, about 38,000 new dwellings were added. Homelessness and overcrowding are serious problems in the West Bank and Gaza/Palestinian settlement areas.

#### 43 EDUCATION

Education is compulsory for 11 years and free for all children between 5 and 15 years of age. Primary education is for six years followed by three years of lower secondary and three more years of upper secondary education. A state education law of 1953 put an end to the separate elementary school systems affiliated with labor and religious groupings, and established a unified state-administered system, within which provision was made for state religious schools. Four types of schools exist: public religious (Jewish) and public secular schools (the largest group); schools of the orthodox Agudat Israel (which operated outside the public school system but were assisted with government funds); public schools for Arabs; and private schools, mainly operated by Catholic and Protestant organizations. The language of instruction in Jewish schools is Hebrew; in Arab schools it is Arabic. Arabic is taught as an optional language in Jewish schools, while Hebrew is taught in Arab schools from the fourth grade.

In 1996, primary schools had a total of 631,916 students. Secondary level schools had 541,737 students and approximately 54,000 teachers in the same year. The pupil-teacher ratio at the primary level was 13 to 1 in 1999. In the same year, 100% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school.

Israel has eight institutions of higher learning. The two most outstanding are the Hebrew University (founded in 1918) in Jerusalem and the Israel Institute of Technology (Technion, founded in 1912) in Haifa, both of which receive government subsidies of about 50% of their total budgets; the remaining funds are largely collected abroad. The Tel Aviv University was formed in 1956. Other institutions include the Bar-Ilan University in Ramat-Gan, opened in 1955 under religious auspices; the Weizmann Institute of Science at Rehovot, notable for its research into specific technical, industrial, and scientific problems; Haifa University; and Ben-Gurion University of the Negev in Beersheba. An Open University, promoting adult education largely through home study, was established and patterned on the British model. In 1996, universities and equivalent institutions enrolled 198,766 students. Adult illiteracy rates for the year 2000 were estimated at 3.9% (males, 2.1%; females, 5.7%). As of 1999, public expenditure on education was estimated at 7.7% of GDP.

#### 44 LIBRARIES AND MUSEUMS

Israel's largest library, founded in 1924, is the privately endowed Jewish National and University Library at the Hebrew University in Jerusalem, with three million volumes. Important collections are housed in the Central Zionist Archives and the Central Archives for the History of the Jewish People, both also in Jerusalem. There are more than 950 other libraries, and the Ministry of Education and Culture has provided basic libraries to hundreds of rural settlements. The Ben Gurion University of the Negev (1966) holds 720,000 volumes. Tel Aviv University holds two million volumes, including a Holocaust Studies collection.

The country's most important museum is the Israel Museum, opened in 1965 in Jerusalem. Found in the museum are the Bezalel Art Museum, with its large collection of Jewish folk art; a Jewish antiquities exhibit; the Billy Rose Art Garden of modern sculpture; the Samuel Bronfman Biblical and Archaeological

Museum; and the Shrine of the Book, containing the Dead Sea Scrolls and other valuable manuscripts. The Rockefeller Archaeological Museum (formerly the Palestine Museum), built in 1938, contains a rich collection of archaeological material illustrating the prehistory and early history of Palestine and Transjordan. There is also in Jerusalem the Central Archives for the History of the Jewish People, containing documents from Jewish communities and organizations around the globe. The Tel Aviv Museum of Art, founded in 1926, has more than 30,000 paintings, drawings, and sculptures. Among Israel's newer cultural institutions are the Museum of the Diaspora in Tel Aviv-Yafo, founded in 1978; the Bible Lands Museum in Jerusalem, founded in 1992; the Museum of Israeli Art in Ramat Gan, founded in 1987; and the Tower of David Museum of the History of Jerusalem at the Jaffa Gate in Jerusalem, founded in 1989.

#### 45 MEDIA

The state owns and operates the major telephone communications services, although radio and television are increasingly privately owned. The state radio stations include the government's Israel Broadcasting Authority (*Shidurei Israel*), the army's Defense Forces Waves (*Galei Zahal*), and the Jewish Agency's Zion's Voice to the Diaspora (*Kol Zion la-Gola*), aimed mostly at Jewish communities in Europe and the US. The purchase of color television sets has become widespread since taxes on imported receivers were cut and the government stopped filtering out the color from imported television programs. In 1999, there were 2.8 million mainline telephones and 2.5 million cellular phones in use. In 2000, there were 526 radios and 335 television sets for every 1,000 people. As of 1998 there were 23 AM and 15 FM radio stations. In 1995, there were 17 television stations. In 2001, there were 1.9 million Internet subscribers served by 21 service providers.

All newspapers are privately owned and managed. Most newspapers have 4–16 pages, but there are weekly supplements on subjects such as politics, economics, and the arts. The largest national daily Hebrew newspapers (with their average 2002 circulations) are *Yediot Achronot* (*Latest News*, 300,000), *Ma'ariv Evening* (*Evening Prayer*, 160,000), *Hadashot* (*The News*, 55,000), and *Ha'aretz* (*The Land*, 65,000), all published in Tel Aviv. Also out of Tel Aviv are two Russian papers, *Nasha Strana* (*Our Country*, 35,000) and *Tribuna* (*Tribune*, NA); the Polish *Nowiny Kurier* (12,000); the German *Hadashot Israel*; the Hungarian *Uj Kelet* (20,000); and the Romanian *Viata-Noastra* (30,000). The English-language *Jerusalem Post* (30,000) is published in Jerusalem.

Although there is no political censorship within Israel, restrictions are placed on coverage of national security matters. Individuals, organizations, the press, and the electronic media freely debate public issues and often criticize public policy and government officials.

#### 46 ORGANIZATIONS

The World Zionist Organization (WZO) was founded by Theodor Herzl in 1897 for the purpose of creating "for the Jewish people a home in Palestine, secured by public law." The organization is composed of various international groupings represented in its supreme organ, the World Zionist Congress. The Jewish Agency, originally founded under the League of Nations mandate to promote Jewish interests in Palestine, comprises the executive arm of the WZO; since 1948, it has been responsible for the organization, training, and transportation to Israel of all Jews who wish to settle there. The United Israel Appeal (*Keren Hayesod*) is the financial instrument of the Jewish Agency; it recruits donations from world Jewry. The Jewish National Fund (*Keren Kayemet le'Israel*) is devoted to land acquisition, soil reclamation, and reforestation. Hadassah, the Women's Zionist Organization of America, is also active in Israel;

it sponsors the Hadassah Medical Organization, which provides hospital and medical training facilities.

There are numerous cultural and religious societies and organizations. The Israel Academy of Sciences and Humanities promotes public interest in science and cooperates with foreign academies in research and dissemination of information.

The main labor organization is the General Federation of Labor (*Histadrut*), a large economic complex whose interests include some of the largest factories in the country, an agricultural marketing society (*Tnuva*), a cooperative wholesale association (*Hamashbir Hamerkazi*), and a workers' bank.

An important youth organization is Youth Aliyah, founded in 1934, which has helped to rehabilitate and educate children from all countries of the world. Other national youth organizations include the Israeli Boy and Girl Scouts Federation, National Working Youth Movement of Israel, Orthodox Youth Movement of Israel (*Ezra*), Socialist Youth Movement of Israel, Sons of Akiva Youth Movement of Israel, Tel Aviv University Students' Association, Trumpeldor Covenant Youth Movement of Israel, United Kibbutz Youth Movement of Israel. Young Herut, Zionit Youth Movement, and chapters of the YMCA/YWCA.

First aid services in Israel are organized by the Red Shield of David (Magen David Adom), which cooperates with the International Red Cross. Other international organizations include Defence for Children International, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Principal tourist attractions are the many holy and historic places which include sites sacred to three religions: Judaism, Islam, and Christianity. In particular, the Old City of Jerusalem contains the Western ("Wailing") Wall, the Dome of the Rock, and the Church of the Holy Sepulchre; nearby are the Mount of Olives and Garden of Gethsemane. Another holy place is Bethlehem, the birthplace of both King David and Jesus. Also of great interest are the ruins of Jericho, the world's oldest city; the caves of Qumran, near the Dead Sea; and the rock fortress of Masada, on the edge of the Dead Sea Valley and the Judean Desert. Tourists are also drawn to Israel's rich variety of natural scenery, ranging from hills and greenery in the north to rugged deserts in the south, and including the Dead Sea, the lowest spot on Earth. The most popular team sports are football (soccer) and basketball; popular recreations include swimming, sailing, and fishing.

A valid passport is required for tourists, with visas issued at time of entry. In 2000, 2,416,756 tourists visited Israel, over 50% from European countries. There were over 45,594 rooms in hotels and other establishments with 106,782 beds and a 60% occupancy rate. Tourist receipts totaled \$3.8 billion. The Tourist Industry Development Corporation fosters tourism by granting loans for hotel expansion and improvement.

According to 2002 US Department of State estimates, the average daily cost of staying in Tel Aviv was \$314. Estimated daily expenses in Jerusalem were \$312 per day.

#### 48 FAMOUS ISRAELITES AND ISRAELIS

The State of Israel traces its ancestry to the settlement of the Hebrews in Canaan under Abraham (b.Babylonia, fl.18th cent. BC), the return of the Israelite tribes to Canaan under Moses (b. Egypt, fl.13th cent. BC) and Joshua (b.Egypt, fl.13th cent. BC), and the ancient kingdom of Israel, which was united by David (r.1000?–960? BC) and became a major Near Eastern power under Solomon (r.960?–922 BC). A prophetic tradition that includes such commanding figures as Isaiah (fl.8th cent. BC), Jeremiah (650?–585? BC), and Ezekiel (fl.6th cent. BC) spans the period of conquest by Assyria and Babylonia; the scribe Ezra (b.Babylonia, fl.5th cent. BC) and the governor Nehemiah (b.Babylonia, fl.5th cent. BC) spurred the reconstruction of the Judean state under Persian hegemony. Judas (Judah) Maccabaeus

("the Hammerer"; fl.165–160 BC) was the most prominent member of a family who instituted a period of political and religious independence from Greek rule. During the period of Roman rule, important roles in Jewish life and learning were played by the sages Hillel (b. Babylonia, fl.30 BC–AD 9), Johanan ben Zakkai (fl.1st cent.), Akiba ben Joseph (50?–135?), and Judah ha-Nasi (135?–220), the compiler of the Mishnah, a Jewish law code; by the military commander and historian Flavius Josephus (Joseph ben Mattathias, AD 37–100?); and Simon Bar-Kokhba (bar Kosiba, d.135), leader of an unsuccessful revolt against Roman rule. Unquestionably, the most famous Jew born in Roman Judea was Jesus (Jeshua) of Nazareth (4? BC–AD 29?), the Christ, or Messiah ("anointed one"), of Christian belief. Peter (Simon, d.AD 67?) was the first leader of the Christian Church and, in Roman Catholic tradition, the first pope. Paul (Saul, b.Asia Minor, d.AD 67?) was principally responsible for spreading Christianity and making it a religion distinct from Judaism.

The emergence of Israel as a modern Jewish state is attributed in large part to Chaim Weizmann (b. Russia, 1874–1952), the leader of the Zionist movement for 25 years, as well as a distinguished chemist who discovered methods for synthesizing acetone and rubber. Theodor Herzl (b. Budapest, 1860–1904), the founder of political Zionism, is buried in Jerusalem. Achad Ha'am (Asher Hirsch Ginsberg; b. Russia, 1856–1927) was an influential Zionist and social critic. Vladimir Jabotinsky (1880–1940) was a dedicated advocate of Jewish self-defense, both in his native Russia and in Palestine. David Ben-Gurion (Gruen; b. Poland, 1886–1973), also a leading Zionist and an eloquent spokesman on labor and national affairs, served as Israel's first prime minister. Golda Meir (Meyerson; b. Russia, 1898–1978), like Ben-Gurion a former secretary-general of Histadrut, became well known as Israel's prime minister from 1970 to 1974. Other prominent contemporary figures include Pinhas Sapir (b. Poland, 1907–75), labor leader and minister of finance; Abba Eban (Aubrey Eban; b. South Africa, 1915–2002), former foreign affairs minister and representative to the UN; and Moshe Dayan (1915–81), military leader and cabinet minister. Menachem Begin (b. Russia, 1913–92), the former leader of guerrilla operations against the British, was prime minister from 1977 to 1983 and received the Nobel Peace Prize in 1978. He was succeeded by Yitzhak Shamir (b. Poland, 1915) in 1983, who gave way to Shimon Peres (b. Poland, 1923) in 1984. Shamir succeeded Peres in 1986. Yitzhak Rabin (1922–1995) was instrumental in the peace accords with the PLO signed in 1993 in Washington.

Israel's foremost philosopher was Martin Buber (b. Vienna, 1878–1965), author of *I and Thou*. Outstanding scholars include the literary historian Joseph Klausner (1874–1958); the Bible researcher Yehezkel (Ezekiel) Kaufmann (b. Ukraine, 1889–1963); the philologists Eliezer Ben-Yehuda (b. Lithuania, 1858–1922) and Naphtali Hertz Tur-Sinai (Torczyner; b. Poland, 1886–1973); the archaeologist Eliezer Sukenik (1889–1953); and the Kabbalah authority Gershom Gerhard Scholem (b. Germany, 1897–1982).

The foremost poets are Haim Nahman Bialik (b. Russia, 1873–1934), Saul Tchernichowsky (b. Russia, 1875–1943), Uri Zvi Greenberg (b. Galicia, 1896–1981), Avraham Shlonsky (b. Russia, 1900–1973), Nathan Alterman (b. Warsaw, 1910–70), Yehuda Amichai (b. Germany, 1924), and Natan Zach (b. Berlin, 1930); and the leading novelists are Shmuel Yosef Halevi Agnon (b. Galicia, 1888–1970), a Nobel Prize winner in 1966, and Hayim Hazaz (b. Russia, 1898–1973). Painters of note include Reuven Rubin (b. Romania, 1893–1975) and Mane Katz (b. Russia, 1894–1962). Paul Ben-Haim (Frankenburger; b. Munich, 1897–1984) and Ödön Partos (b. Budapest, 1907–77) are well-known composers. Famous musicians include Daniel Barenboim (b. Argentina, 1942), Itzhak Perlman (b. 1945), and Pinchas Zukerman (b. 1948).

Significant contributions in other fields have been made by mathematician Abraham Halevi Fraenkel (b. Munich, 1891–1965); botanist Hugo Boyko (b. Vienna, 1892–1970); zoologist Shimon (Fritz) Bodenheimer (b. Cologne, 1897–1959); parasitologist Saul Aaron Adler (b. Russia, 1895–1966); physicist Giulio Raccah (b. Florence, 1909–65); rheologist Markus Reiner (b. Czernowitz, 1886–1976); gynecologist Bernard Zondek (b. Germany, 1891–1966); and psychoanalyst Heinrich Winnik (b. Austria-Hungary, 1902–82).

## 49 DEPENDENCIES

Beginning at the end of the 1967 war until the 1990s, Israel administered the West Bank and the Gaza Strip. The Golan Heights, captured from Syria during the same war, was annexed in 1981; the Sinai Peninsula, taken from Egypt, was restored to Egyptian sovereignty in 1983, in accordance with a 1979 peace treaty. In 1994 Israel returned small pockets of some of the land captured in the war, to be administered in a less than totally sovereign fashion, by the Palestinian Authority. The move was in accord with a peace agreement (the Israel-PLO Declaration of Principles on Interim Self-Government Arrangements or DOP) signed in Washington, DC, on 13 September 1993 by representatives of Israel and the Palestine Liberation Organization (PLO). In January 1996, a Palestinian Legislative Council was elected to form the foundation for the interim self-government for the West Bank and Gaza Strip. In May 1994, a new agreement (the Israel-PLO 4 May 1994 Cairo Agreement on the Gaza Strip and the Jericho Area) transferred responsibility for the Gaza Strip and Jericho to the Palestinians. Over the next several years, agreements between Israel and the PLO transferred responsibility for West Bank territory from Israel to Palestinian control. According to the terms of the DOP, Israel was to continue to provide security for the territories transferred to Palestinian control during the period of transition. In 1999, negotiations to set the terms for permanent status for the West Bank and Gaza began, but a number of factors—continuing expansion of Israeli settlements in territory transferred to Palestinian control, outbreaks of violence and terrorism beginning in 2000 and continuing for the next two years, instability in the Palestinian Authority, and severe reaction on the part of the Israeli military—combined to undermine further progress. The estimated population of the West Bank in 2002 was 2,163,667, not including an estimated 187,000 Israeli settlers; the estimated population of the Gaza Strip that year was 1,225,911, not including an estimated 5,000 Israeli settlers.

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# JAPAN

Nippon

**CAPITAL:** Tokyo

**FLAG:** The Sun-flag (Hi-no-Maru) consists of a red circle on a white background.

**ANTHEM:** (de facto) *Kimigayo (The Reign of Our Emperor)*, with words dating back to the ninth century.

**MONETARY UNIT:** The yen (¥) of 100 sen is issued in coins of 1, 5, 10, 50, 100, and 500 yen, and notes of 500, 1,000, 5,000, and 10,000 yen. ¥1 = \$0.0083 (or \$1 = ¥120) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; Adults' Day, 15 January; Commemoration of the Founding of the Nation, 11 February; Vernal Equinox Day, 20 or 21 March; Greenery Day, 29 April; Constitution Day, 3 May; Children's Day, 5 May; Respect for the Aged Day, 15 September; Autumnal Equinox Day, 23 or 24 September; Health-Sports Day, 10 October; Culture Day, 3 November; Labor-Thanksgiving Day, 23 November; Emperor's Birthday, 23 December.

**TIME:** 9 PM = noon GMT.

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

Situated off the eastern edge of the Asian continent, the Japanese archipelago is bounded on the N by the Sea of Okhotsk, on the E and S by the Pacific Ocean, on the SW by the East China Sea, and on the W by the Sea of Japan. The total area of Japan is 377,835 sq km (145,883 sq mi). Comparatively, the area occupied by Japan is slightly smaller than the state of California. It extends 3,008 km (1,869 mi) NE-SW and 1,645 km (1,022 mi) SE-NW and has a total coastline of 29,751 km (18,486 mi).

The five districts are Honshu, Hokkaido, Kyushu, Shikoku, and Okinawa. Each of the five districts consists of a main island of the same name and hundreds of surrounding islands.

Of the thousands of lesser islands, four are of significance: Tsushima, in the straits between Korea and Japan; Amami Oshima, of the northern Ryukyu Islands at the southern end of the Japanese archipelago; Sado Island in the Sea of Japan off central Honshu; and Awaji Island, lying between Shikoku and Honshu. Two groups of islands returned to Japan by the United States in 1968 are located some 1,300 km (800 mi) due east of the Ryukyus: the Ogasawara (Bonin) Islands, about 885 km (550 mi) south of Tokyo, and the Kazan (Volcano) Islands, directly south of the Ogasawara group.

Japan's principal island is Honshu, on which are located the capital city of Tokyo, the principal cities and plains, and the major industrial areas. This island is divided into five regions: Tohoku, from north of Kanto to Tsugaru Strait; Kanto, embracing seven prefectures in the Tokyo-Yokohama region; the Chubu, or central, region, from west of Tokyo to the Nagoya area; Kinki, including the important cities of Kyoto, Osaka, Kobe, and Nara; and Chugoku, a narrow peninsula thrusting westward from Kinki between the Sea of Japan and the Inland Sea, which lies between southern Honshu and the island of Shikoku.

The Japanese government maintains that the Habomai island group and Shikotan, lying just off Hokkaido and constituting fringe areas of the Kurils, belong to Japan and should be returned to Japanese administration. These islands and the Kuril Islands

are currently occupied by Russia, whose claims are not formally recognized by Japan.

Japan's capital city, Tokyo, is located on the east coast of the island of Honshu.

## <sup>2</sup>TOPOGRAPHY

The Japanese islands are the upper portions of vast mountains belonging to what is sometimes called the Circum-Pacific Ring of Fire, which stretches from Southeast Asia to the Aleutian Islands. Mountains cover over 75% of the land's surface. Landforms are steep and rugged, indicating that, geologically speaking, Japan is still a young area. Through the central part of Honshu, running in a north-south direction, are the two principal mountain ranges: the Hida (or Japan Alps) and the Akaishi mountains. There are 25 mountains with peaks of over 3,000 m (9,800 ft). The highest is the beautiful Mt. Fuji (Fuji-san), at 3,776 m (12,388 ft). Japan has 265 volcanoes (including the dormant Mt. Fuji), of which about 20 remain active. Earthquakes occur continually, with an average of 1,500 minor shocks per year. One of the world's greatest recorded natural disasters was the Kanto earthquake of 1923, when the Tokyo-Yokohama area was devastated and upward of 99,000 persons died.

The plains of Japan are few and small and cover only about 29% of the total land area. Most plains are located along the seacoast and are composed of alluvial lowlands, diluvial uplands, and low hills. The largest is the Kanto Plain (Tokyo Bay region), about 6,500 sq km (2,500 sq mi). Others include the Kinai Plain (Osaka-Kyoto), Nobi (Nagoya), Echigo (north-central Honshu), and Sendai (northeastern Honshu). There are four small plains in Hokkaido. The population is heavily concentrated in these limited flat areas.

Rivers tend to be short and swift. The longest is the Shinano (367 km/228 mi) in north-central Honshu, flowing into the Sea of Japan. The largest lake is Lake Biwa, near Kyoto, with an area of 672 sq km (259 sq mi). Lake Kussharo, in the Akan National Park of Hokkaido, is considered the clearest lake in the world, having a transparency of 41 m (135 ft). Good harbors are limited because in most areas the land rises steeply out of the sea.

Yokohama, Nagoya, and Kobe are Japan's most prominent harbors.

The Ryukyu Islands, among which Okinawa predominates, are the peaks of submerged mountain ranges. They are generally hilly or mountainous, with small alluvial plains.

### 3 CLIMATE

Japan is located at the northeastern edge of the Asian monsoon climate belt, which brings much rain to the country. The weather is under the dual influence of the Siberian weather system and the patterns of the southern Pacific; it is affected by the Japan Current (Kuroshio), a warm stream that flows from the southern Pacific along much of Japan's Pacific coast, producing a milder and more temperate climate than is found at comparable latitudes elsewhere. Northern Japan is affected by the Kuril Current (Oyashio), a cold stream flowing along the eastern coasts of Hokkaido and northern Honshu. The junction of the two currents is a bountiful fishing area. The Tsushima Current, an offshoot of the Japan Current, transports warm water northward into the Sea of Japan.

Throughout the year, there is fairly high humidity, with average rainfall ranging by area from 100 cm to over 250 cm (39–98 in). Autumn weather is usually clear and bright. Winters tend to be warmer than in similar latitudes except in the north and west, where snowfalls are frequent and heavy. Spring is usually pleasant, and the summer hot and humid. There is a rainy season that moves from south to north during June and July.

Average temperature ranges from 17°C (63°F) in the southern portions to 9°C (48°F) in the extreme north. Hokkaido has long and severe winters with extensive snow, while the remainder of the country enjoys milder weather down to the southern regions, which are almost subtropical. The Ryukyus, although located in the temperate zone, are warmed by the Japan Current, giving them a subtropical climate. The typhoon season runs from May through October, and each year several storms usually sweep through the islands, often accompanied by high winds and heavy rains.

### 4 FLORA AND FAUNA

Hokkaido flora is characterized by montane conifers (fir, spruce, and larch) at high elevations and mixed northern hardwoods (oak, maple, linden, birch, ash, elm, and walnut) at lower altitudes. The ground flora includes plants common to Eurasia and North America. Honshu supports a panoply of temperate flora. Common conifers are cypress, umbrella pine, hemlock, yew, and white pine. On the lowlands, there are live oak and camphor trees and a great mixture of bamboo with the hardwoods. Black pine and red pine form the typical growth on the sandy lowlands and coastal areas. Shikoku and Kyushu are noted for their evergreen vegetation. Sugarcane and citrus fruits are found throughout the limited lowland areas, with broadleaf trees in the lower elevations and a mixture of evergreen and deciduous trees higher up. Throughout these islands are luxuriant growths of bamboo.

About 140 species of fauna have been identified. The only indigenous primate is the Japanese macaque, a small monkey found in the north. There are 32 carnivores, including the brown bear, ermine, mink, raccoon dog, fox, wolf, walrus, and seal. There are 250 breeding bird species and 8 species of reptiles. Japan's waters abound with crabs and shrimp; great migrations of fish are brought in by the Japan and Kuril currents. There are large numbers and varieties of insects. The Japanese beetle is not very destructive in its homeland because of its many natural enemies.

### 5 ENVIRONMENT

Rapid industrialization has imposed severe pressures on the environment. Japan's Basic Law for Environmental Pollution

Control was enacted in 1967 and the Environment Agency was established four years later.

Air pollution is a serious environmental problem in Japan, particularly in urban centers. Toxic pollutants from power plant emissions have led to the appearance of acid rain throughout the country. In the mid-1990s, Japan had the world's fourth highest level of industrial carbon dioxide emissions, which totaled 1.09 billion metric tons per year, a per capita level of 8.79 metric tons per year. Air quality is regulated under the Air Pollution Control Law of 1968; by 1984, compensation had been provided to 91,118 air-pollution victims suffering from bronchitis, bronchial asthma, and related conditions. However, the "polluter pays" principle was significantly weakened in 1987 as a result of years of business opposition. Nationwide smog alerts, issued when oxidant density levels reach or exceed 0.12 parts per million, peaked at 328 in 1973 but had declined to 85 (85% of which took place in the Tokyo and Osaka areas) by 1986, following imposition of stringent automobile emissions standards.

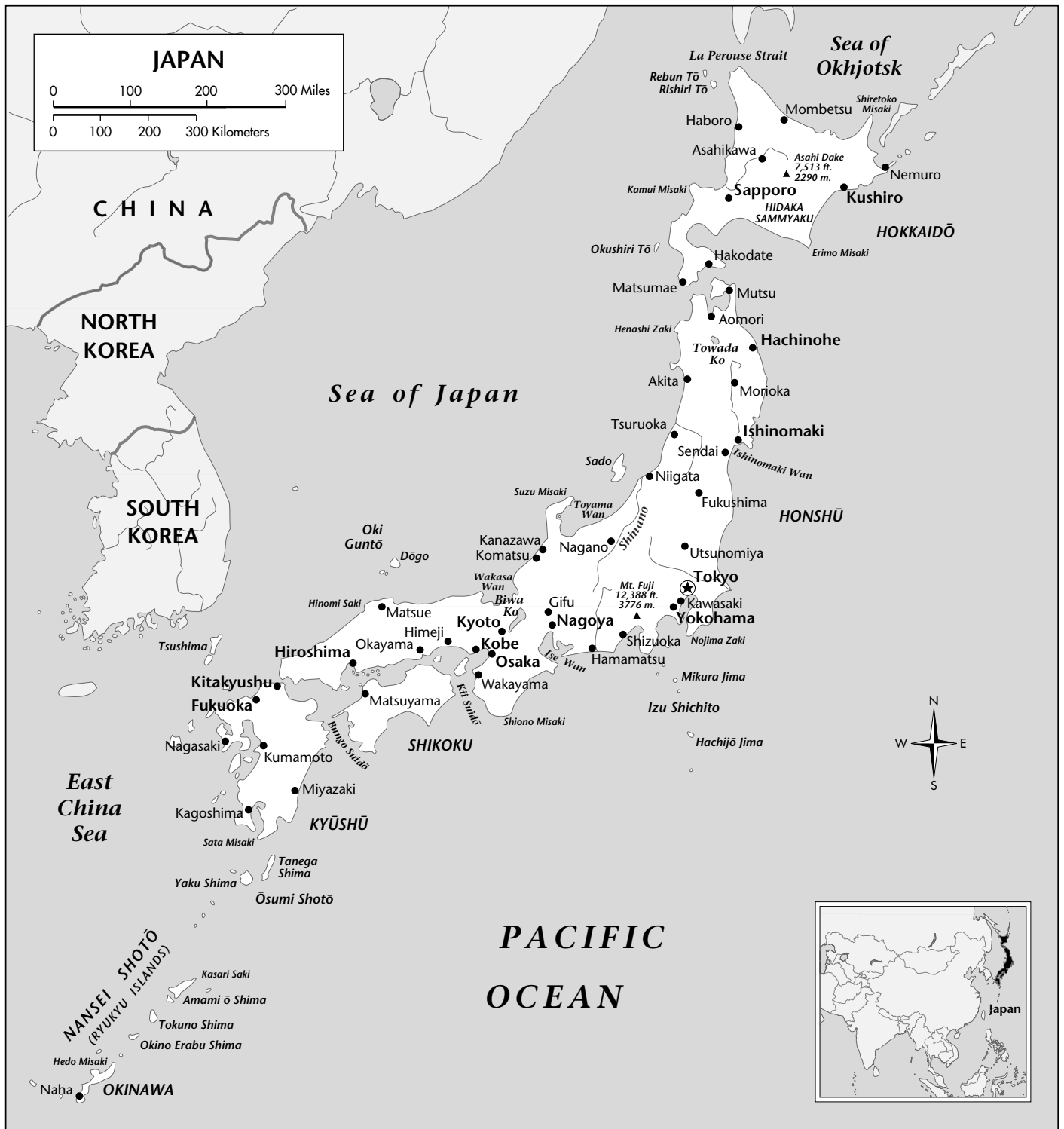
Water pollution is another area of concern in Japan. The nation has 430 cu km of renewable water resources with 64% used in farming activity and 17% used for industrial purposes. Increase in acid levels due to industrial pollutants has affected lakes, rivers, and the waters surrounding Japan. Other sources of pollution include DDT, BMC, and mercury. Environmental damage by industrial effluents has slowed since the promulgation of the Water Pollution Control Law of 1971, but there is still widespread pollution of lakes and rivers from household sources, especially by untreated sewage and phosphate-rich detergents. Factory noise levels are regulated under a 1968 law. Airplanes may not take off or land after 10 PM and the Shinkansen trains must reduce speed while traveling through large cities and their suburbs.

Most of the nation's forests, which play a critical role in retarding runoff and soil erosion in the many mountainous areas, are protected under the Nature Conservation Law of 1972, and large areas have been reforested. Parks and wildlife are covered by the National Parks Law of 1967. In 2001, 6.8% of Japan's total land areas was protected. Japan, one of the world's chief whaling nations, vigorously opposed the 1982 resolution of the IWC calling for a phaseout of commercial whaling by 1986/87. However, since most of its trading partners, including the United States, supported the measure and threatened retaliatory measures if whaling continued, Japan finally agreed to comply with the ban.

Of Japan's mammal species, 29 are endangered, as are 33 bird species, and 537 plants. As of 2001, endangered species in Japan included the Ryukyu sika, Ryukyu rabbit, Iriomote cat, Southern Ryukyu robin, Okinawa woodpecker, Oriental white stork, short-tailed albatross, green sea turtle, and tailless blue butterfly. The Ryukyu pigeon, Bonin thrush, Japanese sea lion, and Okinawa flying fox have become extinct.

### 6 POPULATION

The population of Japan in 2003 was estimated by the United Nations at 127,654,000, which placed it as number 9 in population among the 193 nations of the world. In that year approximately 18% of the population was over 65 years of age, with another 14% 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 0.14%, with the projected population for the year 2015 at 127,224,000. Japan is the only Asian country thus far with a birthrate that has declined to the level of industrial areas in other parts of the world. The estimated 10 births per 1,000 population in 2000 compares with about 343 births per 1,000 population in 1947. The steep drop since 1950 has been attributed to legalization of abortion, increased availability of contraceptives, and the desire to raise living standards. The



LOCATION: 122°56' to 153°59' E; 20°25' to 45°33' N. TOTAL COASTLINE: 29,751 kilometers (18,486 miles). TERRITORIAL SEA LIMIT: 12 miles.

population density in 2002 was 337 per sq km (873 per sq mi). Even with the low birth rate, Japan is one of the most densely populated countries in the world. Urban density rates were 5,500 per sq mi (14,245 per sq mi).

It was estimated by the Population Reference Bureau that 79% of the population lived in urban areas in 2001. The capital city, Tokyo, had a population of 26,356,000 in that year. Other major metropolitan areas include Osaka, 10,609,000; Nagoya,

3,377,000; Sapporo, 1,827,000; Kyoto, 1,703,000; Kitakyushu, 2,898,467; Hiroshima, 912,677; and Sendai, 821,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

### 7 MIGRATION

Japanese nationals living in other countries totaled more than 600,000 in the 1990s, including some 250,000 in the United

States and over 100,000 in Brazil. More than one million Japanese have emigrated since 1880; about 70% of them arrived on the US mainland and in Hawaii during the decades prior to World War II. Emigration continued after the war, encouraged by government policy as a way of relieving population pressure. By the mid-1960s, emigration had considerably decreased, as economic opportunities and living standards in Japan improved. Since the early 1970s, however, the number of emigrants has again risen sharply, reaching 82,619 in 1992 (compared to 12,445 in 1975 and 34,492 in 1985).

Immigration to Japan is generally small-scale, although in recent years the illegal entry of workers from neighboring countries has come to be regarded as a problem. Since 1975, 10,000 Indo-Chinese refugees have settled in Japan. In the mid-1990s there were 1,300,000 registered aliens, of which 690,000 were Koreans. The number of illegal aliens may be even higher. Some 150,000 Chinese constituted the second-largest group. Nearly 42,000 foreigners entered as permanent residents per year. Because citizenship is based on nationality of parent rather than place of birth, registered aliens may have spent their entire lives in Japan. In 1999 the net emigration rate was 0.34 migrants per 1,000 population.

Internal migration, providing a steady exodus of people from farm and mountain communities to the cities and suburbs, has been accelerating since 1952. Most such migrants flocked to the three major population centers—the Tokyo, Osaka, and Nagoya metropolitan areas. As pollution and congestion in these areas increased, the government instituted programs to decentralize industry by directing new growth to smaller cities of the north and west, and also began efforts to improve rural living conditions and employment opportunities.

## 8 ETHNIC GROUPS

In 1999, 99.4% of the population was Japanese while only 0.6% belonged to other ethnic groups (mostly Korean). Although it is known that the Japanese are descended from many varied peoples of Asia, there is no agreement as to origins or specific ethnic strains. In physical characteristics, the Japanese belong to the Mongoloid group, with faint admixtures of Malayan and Caucasoid strains. Waves of migration from the continental hinterland reached Japan during the end of the Paleolithic period, blending into a complicated and diverse ethnic, linguistic, and cultural system. It is believed that the Japanese have their roots in the Old Stone Age race of at least 30,000 BC. A major migration appears to have taken place in the second and third centuries AD, and by the fourth century this group, called the Yamato clan, had established a monarchy in the present Nara prefecture. Other ethnic strains may have come from Indonesia and China in the south, Korea in the west, and Siberia and Alaska in the north.

The one remaining distinct ethnic group in Japan is the Ainu. These people, living on the northern island of Hokkaido, are physically distinct from the contemporary Japanese, having Nordic-like features, including more pervasive facial and body hair. There is no agreement as to their origins; their current population is less than 20,000.

## 9 LANGUAGES

Japanese is the official language. Most linguists agree that Japanese is in a language class by itself, although there is some inconclusive evidence that traces it to the Malayo-Polynesian language family. In vocabulary, Japanese is rich in words denoting abstract ideas, natural phenomena, human emotions, ethics, and aesthetics, but poor in words for technical and scientific expression. For these latter purposes, foreign words are directly imported and written in a phonetic system (*katakana*). A distinct characteristic is the use of honorifics to show proper respect to the listener and his social status.

Written Japanese owes its origin almost entirely to Chinese forms. Having no indigenous script, the Japanese since the fifth century have used Chinese characters, giving them both an approximate Chinese pronunciation and a Japanese pronunciation. In addition, the Japanese invented phonetic symbols (*kana*) in the ninth century to represent grammatical devices unknown to the Chinese.

Attempts have been made to reduce the complexity of the written language by limiting the number of Chinese characters used. The government has published a list of 1,850 characters for use in official communications. Newspapers adhere to this list.

## 10 RELIGIONS

According to a 2000 report by the Agency for Cultural Affairs, about 50% of the population practice Shintoism and 44% practice Buddhism. Religious identities are not mutually exclusive, and many Japanese maintain affiliations with both a Buddhist temple and a Shinto shrine.

Shinto, originally concerned with the worship of spirits of nature, grew under the influence of Chinese Confucianism to include worship of family and imperial ancestors, and thus provided the foundation of Japanese social structure. Shinto became an instrument of nationalism after 1868, as the government officially sponsored and subsidized it, requiring that it be taught in the schools and that all Japanese belong to a state Shinto shrine. After World War II, Shinto was abolished as a state religion, and the emperor issued an imperial rescript denying divine origin. Today, Shinto exists as a private religious organization.

Buddhism is considered by some the most important religion in Japan. Introduced through China and Korea around AD 552, Buddhism spread rapidly throughout Japan and has had considerable influence on the nation's arts and its social institutions. There are 13 sects (*shu*) and 56 denominations, the principal *shu* being Tendai, Shingon, Jodo, Zen, Soto, Obaku, and Nichiren. Japanese Buddhism was founded on the Mahayana school, which emphasizes the attainment of Buddhahood, whereas the Hinayana Buddhism of India emphasizes obedience to commandments and personal perfection. The great temples and gardens of Japan, the famous Japanese tea ceremony (*chanoyu*), and Japanese flower-arranging arts (*ikebana*) owe their development to the influence of Buddhism.

Religions designated as other are practiced by about 6% of the population (including 0.8% practicing Christianity). Christianity, introduced to Japan by the Jesuit St. Francis Xavier in 1549, was first encouraged by feudal lords but then banned in 1613, often under penalty of death. After that time, a unique sect known as "hidden Christians" developed, with no tradition of churches or public displays of faith and a syncretic doctrine that incorporated local ideas and history. The prohibition against Christianity was in force until 1873, following the reopening of Japan to international relations in 1854. Following World War II, when the emperor lost his claim to divinity, some Japanese gave up Shinto and converted to Christianity or Judaism.

After World War II, a considerable number of new religious groups sprouted up. One of these, the Soka-Gakkai, a Buddhist offshoot, controlled a political party (*Komeito*), the third-strongest political group in Japan, until politics and religion were officially separated in 1970. In addition to the established and new religions, Confucianism, an ethical system originating in China, has strongly influenced Japanese society since the earliest periods, providing underpinnings for some characteristically Japanese attitudes.

## 11 TRANSPORTATION

Despite its rugged terrain, Japan has a highly developed transportation system. In 2002, Japan had 23,654 km (14,699 mi) of railways, of which about 90% is 1.067 m narrow gauge,

and 15,895 km (9,877 mi) is electrified. The government-owned Japan National Railways (JNR) was privatized in April 1987 and divided into six railway companies; feeding into these six lines were 144 other private railroads. Like their counterparts elsewhere, Japan's rail lines face increasing competition from automotive, sea, and air transport, as well as rising operating costs. High-speed lines, however, have been successful in partially meeting these problems; the most famous of these is the Shinkansen, which opened to traffic in October 1964 between Tokyo and Osaka and was extended in March 1975 to Fukuoka in northern Kyushu; in 1984, the Shinkansen superexpress trains covered the 1,069 km (664 mi) between Tokyo and Fukuoka in less than seven hours, with maximum speeds of 210 km/hr (130 mph). In 1982, the first section of the northern Shinkansen line, between Tokyo and Omiya, began operations. This line was extended in 1983 to Niigata and to Morioka, in northern Honshu. By far the longest railway tunnel in the world, the 54.2 km (33.7 mi) Seikan tube linking Honshu with Hokkaido, was opened in 1983 and completed in 1985; the tunnel, lying beneath the Tsugaru Strait, cost well over \$2 billion. A bridge linking Honshu and Shikoku was recently opened. Subway lines serve nine cities—Tokyo, Osaka, Nagoya, Kobe, Yokohama, Sapporo, Kyoto, Fukuoka, and Sendai. There are 410 km (255 mi) of track, with 196 km (122 mi) in Tokyo's 11 lines. Since 1964, downtown Tokyo has also been linked with that city's Haneda Airport by a monorail transport system, and several other monorails have been put into operation. In addition, a 7 km (4.3 mi) monorail serves the city of Yokohama.

Roads have become the most important means of domestic transport. Motor vehicles in 2000 numbered 52,438,000 passenger cars and 20,214,843 commercial vehicles, up from 25,848,000 and 8,306,000, respectively, in 1985. To speed traffic flow, a total of 6,070 km (3,772 mi) of expressways were open to traffic in 1996. In 2002, there were about 1.15 million km (715,981 mi) of roadways, of which about 863,003 km (536,270 mi) were paved.

Japan is one of the world's great maritime nations. The chief ports are Yokohama (for Tokyo), Nagoya, and Kobe. In 2002, Japan's merchant fleet included 615 ships, totaling 10,995,839 GRT. Since 1959, Japan has emerged as the world's leading shipbuilder, but output declined in the late 1970s and 1980s in the face of a worldwide recession and increased competition from the Republic of Korea (ROK).

Japan had 173 airports in 2001, of which 141 had paved runways. Principal domestic airports include Haneda in Tokyo, Itami in Osaka, Itazuke in Fukuoka, and Chitose on Hokkaido. Principal international facilities include Kansai International at Osaka and New Tokyo International at Tokyo. Japan Air Lines (JAL), the nation's major domestic and international airline, began operations in 1952 and inaugurated international flights in 1954. All Nippon Airways, established in 1957, began as a domestic system serving smaller areas of the country and acting as a feeder line to JAL but now serves overseas routes; it began to carry freight in 1987. In 2001, Japan's airlines performed 7,627 million freight ton-km (4,739 million freight ton-mi). In the same year, 107,870,200 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Recent archaeological discoveries revealed the existence of paleolithic humans in Japan when the islands were connected to the Asian continental landmass. Little is known about the origins of the earliest Japanese beyond the fact that they migrated from the continent. The first distinctive Neolithic culture, the Jōmon, existed in Japan from 11,000 BC to 300 BC. The Jōmon was displaced by the Yayoi culture, which introduced new agricultural and metallurgical skills from the continent. Tradition places the beginning of the Japanese nation in 660 BC with the ascendance

to the throne of the legendary Emperor Jimmu. It is generally agreed, however, that as the Yayoi developed, the Yamato clan attained hegemony over southern Japan during the first three or four centuries of the Christian era and established the imperial family line. Earlier contacts with Korea were expanded in the fifth century to mainland China, and the great period of cultural borrowing began: industrial arts were imported; Chinese script was introduced (thereby permitting the study of medical texts), the Chinese calendar and Buddhism also arrived from China. Japanese leaders adapted the Chinese governmental organization but based power upon hereditary position rather than merit. The first imperial capital was established at Nara in 710. In 794, the imperial capital was moved to Heian (Kyoto), where it remained until 1868, when Tokyo became the nation's capital.

Chinese influence waned as native institutions took on peculiarly Japanese forms. Outside court circles, local clans gained strength, giving rise to military clan influence over a weakening imperial system. The Minamoto clan gained national hegemony as it defeated the rival Taira clan in 1185, and its leader, the newly appointed Yoritomo, established a military form of government at Kamakura in 1192, a feudal system that lasted for nearly 700 years. Under the shogunate system, all political power was in the hands of the dominant military clan, with the emperors ruling in name only. The Kamakura period was followed by the Ashikaga shogunate (1336–1600) which saw economic growth and the development of a more complex feudalism. For over 100 years, until the end of the 16th century, continuous civil war among rival feudal lords (*daimyo*) ensued. During this time, the first contact with the Western world took place with the arrival in 1543 of Portuguese traders, and with that, the first guns were imported. Six years later, St. Francis Xavier arrived, introducing Christianity to Japan.

By 1590, the country was pacified and unified by Toyotomi Hideyoshi, a peasant who had risen to a top military position. Hideyoshi also invaded Korea unsuccessfully, in 1592–93 and in 1598, dying during the second invasion. Ieyasu Tokugawa consolidated Hideyoshi's program of centralization. Appointed shogun in 1603, Tokugawa established the Tokugawa shogunate, which was to rule Japan until the imperial restoration in 1868. Tokugawa made Edo (modern Tokyo) the capital, closed Japan to foreigners except Chinese and Dutch traders (who were restricted to Nagasaki) and occasional Korean diplomats, and banned Christianity. For the next 250 years, Japan enjoyed stability and a flowering of indigenous culture, although from the end of the 18th century onward, Japan came under increasing pressure from Western nations to end its isolationist policy.

The arrival of Commodore Matthew C. Perry from the United States in 1853—with his famous “black ships”—started a process that soon ended Japanese feudalism. The following year, Perry obtained a treaty of peace and friendship between the United States and Japan, and similar pacts were signed with Russia, Britain, and the Netherlands based on the principle of extraterritoriality. A decade of turmoil and confusion followed over the question of opening Japan to foreigners. A coalition of southern clans led by ambitious young samurai of the Satsuma and Choshu clans forced the abdication of the Tokugawa shogun and reestablished the emperor as head of the nation. In 1868, Emperor Mutsuhito took over full sovereignty. This Meiji Restoration, as it is known, signaled the entry of Japan into the modern era.

Intensive modernization and industrialization commenced under the leadership of the restoration leaders. A modern navy and army with universal military conscription and a modern civil service based on merit formed the foundation of the new nation-state. The government undertook the establishment of industry, by importing technological assistance. In 1889, a new constitution established a bicameral legislature (Diet) with a civil cabinet headed by a prime minister responsible to the emperor.

By the end of the 19th century, irreconcilable territorial ambitions brought Japan into open conflict with its much larger western neighbors. The Sino-Japanese War (1894–95) was fought over the question of control of Korea, and the Russo-Japanese War (1904–05) over the question of Russian expansion in Manchuria and influence in Korean affairs. Japan emerged victorious in both conflicts, its victory over the Russians marking the first triumph of an Asian country over a Western power in modern times. Japan received the territories of Taiwan and the southern half of Sakhalin Island, as well as certain railway rights and concessions in Manchuria and recognition of paramount influence in Korea. The latter became a Japanese protectorate in 1905 and was annexed by Japan in 1910.

During the Taisho era (1912–26), Japan participated in a limited way in World War I, in accordance with the Anglo-Japanese Alliance of 1902. Japan was one of the Big Five powers at the Versailles Peace Conference and in 1922 was recognized as the world's third-leading naval power at the Washington Naval Conference. The domestic economy developed rapidly, and Japan was transformed from an agricultural to an industrial nation. Economic power tended to be held by the industrial combines (*zaibatsu*), controlled by descendants of those families that had instituted the modernization of the country decades earlier. In 1925, universal manhood suffrage was enacted, and political leaders found it necessary to take into consideration the growing influence of parties.

In 1926, Emperor Hirohito ascended the throne beginning the Showa era. By the 1930s, democratic institutions atrophied and the military-industrial complex became dominant. With severe social distress caused by the great depression, an ultranationalist ideology emerged, particularly among young army officers. Acting independently of the central government, the military launched an invasion of Manchuria in 1931, eventually establishing the puppet state of Manchukuo. In 1932, a patriotic society assassinated the prime minister, bringing an end to cabinets formed by the majority party in the Diet. Japan withdrew from the League of Nations (which had protested the Manchurian takeover) in 1933, started a full-scale invasion of China (the Second Sino-Japanese War, 1937–45), and signed the Anti-Comintern pact with Germany in 1936 and a triple alliance with Germany and Italy in 1940. The military leadership, viewing the former USSR and the United States as chief barriers to Japanese expansion, negotiated a nonaggression pact with the USSR in April 1941, thus setting the stage for the attack on Pearl Harbor and other Pacific targets on 7 December of that year. Thereafter, Japanese military actions took place in the context of World War II.

With its capture of the Philippines on 2 January 1942, Japan gained control of most of East Asia, including major portions of China, Indochina, and the southwest Pacific. Japanese forces, however, could not resist the continued mobilization of the US military. A series of costly naval campaigns—including battles at Midway, Guadalcanal, and Leyte Gulf—brought an end to Japanese domination in the Pacific. By 1945, the Philippines had been recaptured, and the stage was set for a direct assault on Japan. After the US troops captured Okinawa in a blood battle, President Harry S. Truman argued that a full invasion of Japan would prove too costly and decided on aerial attacks to force Japan into surrendering. After four months of intense bombardment with conventional weapons, the United States dropped an atomic bomb on Hiroshima on 6 August 1945 and a second bomb on Nagasaki on 9 August. An estimated 340,000 persons died from the two attacks and the subsequent effects of radiation.

On 14 August, Japan accepted the Potsdam Declaration for unconditional surrender with formal surrender documents signed aboard the USS *Missouri* on 2 September. The subsequent occupation (1945–52), under the direction of General Douglas

MacArthur, Supreme Commander for the Allied Powers, began a series of ambitious reforms. Political reforms included the adoption of a parliamentary system of government based on democratic principles and universal suffrage, a symbolic role for the emperor as titular head of state, the establishment of an independent trade union, and the disarmament of the military. Economic reforms consisted of land reform, the dissolution of the *zaibatsu*, and economic and political rights for women. A new constitution was promulgated on 3 November 1946 and put into force on 3 May 1947.

### The Postwar Period

Heavy economic aid from the United States and a procurement boom produced by the Korean War, coupled with a conservative fiscal and monetary policy allowed the Japanese to rebuild their country. The Japanese economy rapidly recovered, and the standard of living quickly surpassed the prewar level by a substantial margin. The state of war between the Western powers and Japan was formally ended by the San Francisco Peace Treaty, signed in September 1951 by 56 nations. The allied occupation ended officially when the treaty went into effect in April 1952. Japan renounced claims to many of its former overseas territories, including such major areas as Taiwan and Korea. The Amami island group, comprising the northern portion of the Ryukyu Islands, nearest to Kyushu Island, was returned to direct Japanese control by the United States in December 1953; the remainder of the group, including Okinawa, was returned to full Japanese sovereignty in May 1972. The Ogasawara (Bonin) Islands and Kazan (Volcano) Islands were returned to Japanese sovereignty in June 1968. The former USSR never signed the San Francisco Peace Treaty, and Japan and Russia continue to dispute sovereignty over the Kurile Islands, to the northeast of Hokkaido, which the USSR occupied in 1945. In 1956, Japan and the former USSR agreed to establish diplomatic relations.

In 1956 Japan was elected to UN membership. A revision of the 1952 defense treaty with the United States, under which a limited number of troops were to remain in Japan for defense purposes, was signed amid growing controversy in 1960. On 22 June 1965, Japan signed a treaty with South Korea normalizing relations between the two countries. The US-Japanese Security Treaty was renewed in 1970, despite vigorous protest by the opposition parties and militant student organizations. In 1972, Japan moved to establish full diplomatic relations with the People's Republic of China. Formal diplomatic links with the Nationalist Chinese government on Taiwan were terminated by this move, but Japan's economic and cultural links with Taiwan nonetheless have survived virtually intact.

While Japan defined its new role in East Asian affairs, its remarkable economic expansion raised it to the level of a major trading power. Based on strong government support of export industries, political stability under the Liberal-Democratic Party (LDP), and public policy guidance from a powerful bureaucracy, Japan experienced a dramatic rise from the ruins of World War II. From 1955 to 1965, Japan experienced a nominal growth rate of 10–20% annually and real growth rates (adjusted for inflation) of 5–12%. In 1968, it surpassed the Federal Republic of Germany (FRG) to stand second after the United States among non-Communist nations in total value of GNP. The oil crisis of 1973—a combination of shortages and rising prices—revealed the crack in Japan's economic armor, the lack of domestic petroleum resources. A second oil crisis during the late 1970s, was met by a reappraisal of Japan's dependence on foreign fuels and the institution of long-range programs for energy conservation and diversification.

The yen declined in value in the early 1980s, causing Japanese exports to become cheaper in overseas markets and leading to huge trade surpluses with the United States and other leading trading partners, who began to demand that Japan voluntarily

limit certain exports and remove the barriers to Japan's domestic market. During 1985–87, the yen appreciated in value against the dollar and, by 1994, the dollar had hit a post-World War II low, but Japan continued to register substantial trade surpluses.

Political stability, maintained since the 1950s by the majority LDP, began to unravel in the 1970s, following the retirement from politics of Prime Minister Eisaku Sato in 1972. Sato's successor, Kakuei Tanaka, was forced to resign in December 1974 amid charges of using his office for personal gain in the Lockheed Corporation bribery scandal. Takeo Miki succeeded Tanaka and Takeo Fukuda became prime minister when Miki resigned in December 1976. Fukuda was defeated in intraparty elections by Masayoshi Ohira in 1978. When Ohira died in June 1980, he was succeeded by Zenko Suzuki. Suzuki stepped down as prime minister in November 1982 and was replaced by controversial and outspoken Yasuhiro Nakasone. Noboru Takeshita became prime minister in November 1987.

Policy regarding military force has been a major political issue in the postwar years. According to Article Nine of the 1947 constitution, Japan renounced the belligerency of the state but soon developed a Self-Defense Force with US encouragement. In 1986, breaking a long-standing policy, the government increased military spending to over 1% of the GNP. The Diet (parliament) approved a bill allowing the deployment of troops abroad for international peacekeeping in 1992 (with the United Nations in Cambodia).

Emperor Hirohito died of cancer on 7 January 1989, at the age of 87. He was succeeded by the Crown Prince Akihito, who was enthroned as the Heisei emperor in a formal ceremony in November 1990. The sense of entering a new era brought increased controversy over the assessment of Japan's role in the earlier part of the century, particularly during World War II. Some denied that Japan had committed atrocities during the war and there were attempts to further soften the wording of school textbooks. In March 1989, Prime Minister Takeshita apologized to North Korea (DPRK) for the suffering Japan caused over the 36 years of occupation of Korea (1910–45) and Emperor Akihito expressed similar regrets to President Roh Tae Woo of South Korea (ROK) in May 1990. In the same month, the government removed the requirement for fingerprinting of people of Korean descent living in Japan. In 1992, Prime Minister Kiichi Miyazawa apologized for the forced prostitution of Korean, Chinese, and Japanese women in Japanese military brothels during World War II.

The 1980s ended with a major scandal involving illegal stock trading and influence peddling by the Recruit Cosmos Company. Between the summer of 1988 and the closing of the case in May 1989, the scandal led to the implication and resignations of prominent business people and politicians in top government positions, among them then-finance minister Kiichi Miyazawa, and the former prime minister, Yasuhiro Nakasone. Scandals continued into the 1990s with stock rebates for politicians in 1991 and then in 1992, contributions to politicians from a trucking company linked to organized crime became public knowledge.

The economy entered a period of major stagnation and distress in the early 1990s. In 1990, the stock market declined more than 25% from January to April. Then, during the spring of 1992, the stock index fell rapidly again, until by the summer, the index was at its lowest point in six years at 62% below the record high of 1989. By the end of 1993, Japan was in the midst of its worst economic downturn in at least 20 years.

Against the background of scandals and an economic recession, the political landscape began a major change. Taking responsibility for political problems caused by the Recruit scandal, Noboru Takeshita resigned as prime minister in April 1989, to be succeeded in May by Sosuke Uno, who abruptly resigned when a sex scandal became public amidst the LDP loss

of its majority in the upper house of the Diet. The next prime minister, Toshiki Kaifu, served his term from August 1989 to October 1991, but the LDP did not support him for a second term. Instead, Kiichi Miyazawa became prime minister in November 1991. When the lower house gave Miyazawa a vote of no confidence in June 1993 for abandoning electoral reform bills, Miyazawa dissolved the lower house and called for elections.

In the election for the 511 seats of the House of Representatives on 18 July 1993, the LDP, for the first time since its own formation in 1955, failed to secure the 256 seats needed for a majority. Without a majority, the LDP was unable to form a government and the new prime minister, Morihiro Hosokawa (JNP), was chosen on 29 July 1993, by a seven-party coalition of LDP defectors, Socialists, and conservatives. Hosokawa, too, was tainted by questions regarding personal finances and stepped down as prime minister to be replaced by Tsutomu Hata (Shinseito) in April 1994. Just as Hata took office, the Socialist Party left the governing coalition, leaving the prime minister as the head of a minority government for the first time in four decades. Hata soon resigned and, in a surprise move, the LDP and the Socialist Party, traditionally opponents, allied to form a new coalition, which also included the Sakigake. The coalition selected as prime minister Tomiichi Murayama, the head of the Socialist Party and the first Socialist prime minister since 1948. Within the coalition, the LDP was the dominant factor, but the decades of LDP rule appeared to be over and the nature of the LDP itself changed. The dissolution of the House of Representatives and the ensuing election on 18 July 1993 marked a major turning point for Japanese politics as the LDP lost its political dominance as new parties formed. One new party, the Japan New Party (JNP), was formed by Morihiro Hosokawa, a former LDP member, in May 1992. On 21 June 1993, 10 more members of the LDP, led by Masayoshi Takemura, left to form the Sakigake (Harbinger Party) and another 44 LDP members quit two days later to create the Shinseito (Renewal Party) with Tsutomu Hata as its head. By 28 June, one-fifth (57 members) of the LDP bloc of the dissolved lower house left the party.

In June 1994, Tomiichi Murayama became prime minister in a coalition consisting of the LDP, the Social Democratic Party of Japan (SDPJ), and Sakigake. In an unprecedented move, Murayama recognized the legal right for the existence of the Japanese Self-Defense force, much to the disapproval of left-leaning party members. The tumultuous reign of Murayama included the Kobe earthquake and political scandals which led to the resignation of the Justice Minister and the director of the Management and Coordination Agency. Elections in October 1996 resulted in a victory for the LDP, but the party still failed to obtain a majority of seats, only capturing 239 of 500. The Sakigake and Democratic Party of Japan agreed to support Prime Minister Ryutaro Hashimoto. In July 1998, Hashimoto resigned after a poor performance of the LDP in the House of Councilors election and was replaced by Keizo Obuchi. During the Obuchi regime, the Japanese economy showed signs of recovering with major fiscal stimuli including a massive public works program. The LDP also orchestrated and implemented a plan to bail out failed and ailing banks with taxpayers funds.

In April 2000, Obuchi suffered a stroke, entered into a coma, and was replaced by Yoshiro Mori who called summarily for elections. On 25 June parliamentary elections were held for the House of Representatives. Mori was re-elected prime minister, with a ruling coalition of the LDP, the Buddhist-backed New Komeito, and the New Conservative Party (NCP). In early 2001, the Nikkei stock average fell to its lowest level since 1985 and unemployment rates reached 4.9%, the highest since the end of World War II. Plagued by scandal and the depressed economy, Mori resigned in April 2001. Junichiro Koizumi won control of the LDP and became prime minister on 26 April, promising to reinvigorate Japanese politics and radically reform the economy.



He appointed members of his cabinet without seeking nominations from major factions of the LDP, as had been the practice in the past.

Koizumi immediately raised controversy by making a visit to the Yasukuni Shrine. Dedicated to Japan's war dead, it served as a symbol of nationalism during World War II and has been a lightning rod for anger among Asian nations that suffered under Japan's military aggression. He visited the shrine again in April 2002. Japan was also the target of international criticism over its Education Ministry's approval of junior high-school textbooks that allegedly glossed over Japan's aggression in China and its annexation of the Korean Peninsula.

Koizumi's coalition dominated the July 2001 elections for the House of Councilors, with the LDP taking 65 of the 121 contested seats, its best performance in the House of Councilors since 1992. The victory was seen as a mandate for Koizumi. However, the economy remained in recession throughout 2002, which reduced his popularity.

In 2002, Japan began a diplomatic initiative to improve relations with North Korea. In September 2002, North Korean President Kim Jong Il apologized to Koizumi for North Korea's kidnapping of Japanese citizens during the 1970s and 1980s. Japan pledged a generous aid package to North Korea in return. However, in October, North Korea revealed that it had ongoing a uranium-enrichment program for the making of nuclear weapons. This was widely seen as a violation of the Nuclear Nonproliferation Treaty and a 1994 US-North Korea nuclear pact signed during the Clinton administration. On 10 January 2003, North Korea withdrew from the Nuclear Nonproliferation Treaty, and on 23 January, North Korea and South Korea agreed to find a peaceful solution to the crisis.

### 13 GOVERNMENT

Japan follows the parliamentary system in accordance with the constitution of 1947. The most significant change from the previous constitution of 1889 was the transfer of sovereign power from the emperor to the people. The emperor is now defined as "the symbol of the state and of the unity of the people." The constitution provides for the supremacy of the National Diet as the legislative branch of the government, upholds the separation of legislative, executive, and judicial powers, and guarantees civil liberties.

The executive branch is headed by a prime minister selected from the Diet by its membership. The cabinet consists of the prime minister and 17 state ministers (as of February 2003), each heading a government ministry or agency. At least half the ministers must be selected from the Diet, to which the cabinet is collectively responsible. Upon a vote of no confidence by the house of representatives, the cabinet must resign en masse.

The National Diet is bicameral. The house of representatives (the lower house) has a membership of 480, with terms of office for four years, except that all terms end upon dissolution of the house (a law promulgated in February 2000 reduced the composition of the House from 500 to 480 members). From 1947 through 1993, Representatives were elected from 130 "medium" (multiple-member) constituencies, apportioned on the basis of population. The house of councilors (the upper house) has 247 members, 121 of whom are elected from a national constituency on the basis of proportional representation, the remainder from 47 prefectural constituencies. The term of office is six years, with one-half elected every three years. The lower house holds primary power. In case of disagreement between the two houses, or if the upper house fails to take action within 60 days of receipt of legislation from the lower house, a bill becomes law if passed again by a two-thirds majority of the lower house.

Suffrage is universal, the voting age being 20 years, with a three-month residence requirement. The 1947 constitution granted suffrage to women. In January 1994, the Diet passed an

electoral reform bill. In addition to new laws on campaign financing, the legislation abolished the multiple-member districts and replaced them with 300 single-member districts and 200 multimember districts. Currently, the number of multimember districts stands at 180. The 1996 elections resulted in the weakening of minor parties, in particular the SDPJ and Sakigake. Elections for the house of representatives took place in 2000 and those for the house of councilors in 2001.

### 14 POLITICAL PARTIES

The Liberal-Democratic Party (LDP) represents a wide spectrum of Japanese society, but most especially the conservative elements. Formed in 1955 by the merger of the two leading conservative parties, this party held the reins of government since its formation until July 1993.

The Japan Socialist Party (JSP) is Japan's principal opposition party, drawing its support mainly from the working class, but it suffers from personality as well as ideological problems within its ranks. The JSP split into right and left wings over the ratification of the US-Japan Security Treaty of 1952. In October 1955, however, the two factions reunited, preceding the unification of the conservative parties and actually forcing the conservative groups into a unified front, thus creating a formal two-party system in Japan.

Beginning in the late 1960s, a shift took place toward a multiple-party system, with the gradual increase of opposition parties other than the JSP. The Democratic Socialist Party (DSP) represented moderate elements of the working class. The Komeito (Clean Government Party), professing middle-of-the-road politics, was the political wing of the Soka-Gakkai, a Buddhist sect. The Japanese Communist Party, founded as an underground group in 1922 and legalized after World War II, experienced major shifts in platform. The party had traditionally sided with China in the Sino-Soviet ideological dispute, although in recent years the Japanese Communists have focused instead on social conditions at home.

The LDP continued to hold its majority in both houses until 1993. Traditionally, the LDP has functioned as a coalition of several factions, each tightly organized and bound by personal loyalty to a factional leader. In the mid-1970s, policy differences among the factions and their leaders became acute, with the resignation under pressure of Prime Minister Tanaka in December 1974.

In the summer of 1993, after five years of scandals involving corruption, sex, organized crime, and in the midst of economic recession, the old political order disintegrated as dozens of younger LDP members defected to form new parties. Chief among these was the Japan New Party (JNP), formed in May 1992, and the Sakigake (Harbinger Party) and the Shinseito (Renewal Party), both formed in June 1993. A watershed election in July 1993 for the House of Representatives, the lower house of the parliament, resulted in the loss by the LDP, for the first time since 1955, of its majority. Of the 511 seats, the LDP won 223 seats (as compared with 275 in the 1990 election), the JSP won 70 seats (a loss of half of its previous seats), the Komeito won 51 seats, the Shinseito took 55 seats, the JNP 35 seats, and the Sakigake 13. A seven-party coalition, including new parties of LDP defectors, the JSP, and other conservative parties, formed the new cabinet, which governed for a year until the prime minister (Morihiro Hosokawa, JNP) resigned over a financial scandal. The coalition formed a new government, led by Tsutomu Hata of the Shinseito, in April 1993. However, the JSP, finding itself maneuvered out of any voice in the coalition, broke away and Hata, then with a minority in the House of Representatives, resigned after one month in office.

The next government was formed by a new, unorthodox coalition of the traditional opponents, the LDP and the JSP, as well as the Sakigake. Tomiichi Murayama, head of the JSP, was

chosen prime minister in June 1994, the first Socialist to head a government since 1948, although the LDP appeared to be dominant in the coalition. This unusual partnership caused strains, leading to further defections, within the LDP and within the JSP. The Shinseito emerged as a serious focus of opposition, standing for an internationally more active Japan, including use of the military overseas, for a revision of the constitution, and for removing protective regulations to open the domestic economy to competition. The left wing of the JSP, unhappy with the alliance with the LDP, held that the Self-Defense Forces were unconstitutional, and that the North Korean government (DPRK) was the legitimate government of all of Korea, and advocated abolition of the security treaty with the United States.

The parliamentary election that took place on 20 October 1996 combined the 300 single seat constituencies with the proportional representation for the remaining 200 seats. After the dissolution of Shinshintō, a highly fractionalized party system emerged. Going into the 2000 election, the LDP had 266 seats, with the largest opponents being the Democratic Party of Japan (DPJ) with 94 seats, the Komeito with 52, the Liberal Party with 39, and the Communists with 23. The LDP worked closely with the Komei party and the Liberal Party, effectively making the DPJ the only significant opposition.

The 2000 House of Representatives election produced the following distribution of seats: LDP 233, DPJ 127, Komeito 31, Liberal Party 22, Japan Communist Party (JCP) 20, Social Democratic Party (SDP) 19, New Conservative Party (formed in 2000) 7, and 21 other seats. In the 2001 House of Councilors vote, the seats fell as follows: LDP 110, DPJ 59, Komeito 23, JCP 20, SDP 8, Liberal Party 8, New Conservative Party 5, and independents took 14 seats. The newest party in Japanese politics is the New Conservative Party, formed in March 2000 by members who split off from the Liberal Party. Since April 2001, the party has been part of the Koizumi coalition government. The next elections for both houses are to be held in 2004.

## 15 LOCAL GOVERNMENT

Local government throughout Japan was strengthened by the Local Autonomy Law of 1947. Administratively, Japan is divided into 47 prefectures. Within these prefectures there are 670 cities and 2,562 towns and villages. The local chief executives, mayors, and village heads, together with prefectural assembly members, are directly elected. The city of Tokyo comprises 23 wards.

Local public bodies have the right to administer their own affairs as well as to enact their own regulations within the law. The National Diet cannot enact legislation for a specific public entity without the consent of the voters of that district. Local governments control school affairs, levy taxes, and carry out administrative functions in the fields of land preservation and development, pollution control, disaster prevention, public health, and social welfare. The Japanese government is seeking to decentralize power away from Tokyo by allowing prefectures to exercise greater fiscal and budgetary autonomy.

## 16 JUDICIAL SYSTEM

The 1947 constitution provides for the complete independence of the judiciary. All judicial power is vested in the courts. The system consists of the supreme court, eight regional higher courts, district courts in each of the prefectures, and 438 summary courts. In addition, there are family courts, on the same level as the district courts, to adjudicate family conflicts and complaints such as partitions of estates, marriage annulments, and juvenile protection cases.

The supreme court consists of a chief justice and 14 other justices. The chief justice is appointed by the emperor on designation by the cabinet; the other justices, by cabinet appointment. All appointments are subject to popular review at the first general election following appointment and every 10

years thereafter in public referendum. Judges of the lesser courts also are appointed by the cabinet from lists of persons nominated by the supreme court. Their term of office is limited to 10 years, with the privilege of reappointment.

The supreme court is the court of last resort for determining the constitutionality of any law, order, regulation, or official act that is challenged during the regular hearing of a lawsuit. Abstract questioning of a law is prohibited and thus there is no judicial review. The constitution affords criminal defendants a right to a speedy and public trial by an impartial tribunal. There is no right to a trial by jury. The constitution requires a judicial warrant issued by a judge for each search or seizure. Japan accepts compulsory jurisdiction of the International Court of Justice with reservation.

## 17 ARMED FORCES

The reestablishment of Japanese defense forces has been a subject of heated debate in the period since World War II. Article 9 of the constitution renounces war as a sovereign right and the maintenance of "land, sea and air forces, as well as other war potential." During the Korean War, General MacArthur recommended the establishment of a national police reserve. Following the signing of the San Francisco Peace Treaty, the reserve force was reorganized into a National Safety Agency (1 August 1952). Laws establishing a Defense Agency and a Self-Defense Force became effective on 1 July 1954, both under firm civilian control.

The strength of Japan's armed forces in 2002 was 239,900 active personnel including some 10,400 women. The Ground Self-Defense Force had 148,200 personnel, organized into one armored and 10 infantry divisions. There were also 47,000 personnel in reserve components. The Maritime Self-Defense Force, consisting of 44,400 personnel, had 54 surface combatants, 16 combat submarines, and an air arm of about 80 combat aircraft and 90 armed helicopters. Air Self-Defense Force personnel numbered 45,600 with combat aircraft totaling 280. Japan has a paramilitary coast guard of 12,250 operating 333 patrol vessels.

Although Japan's defense budgets—about \$41 billion in 2001—rank high by world standards, they are modest in relation to gross domestic product (about 1%). The US maintains extensive military facilities and 40,000 troops in Japan. Japan participates in peacekeeping missions in East Timor and the Middle East.

## 18 INTERNATIONAL COOPERATION

Japan was admitted to UN membership on 18 December 1956, and it holds membership in ESCAP and all the nonregional specialized agencies. It is a member of the WTO and signatory to the Law of the Sea, participates in the Colombo Plan, and has permanent observer status with the OAS. In 1963, Japan became a member of IMF and the OECD. It is also a charter member of the Asian Development Bank, which came into operation in 1966; Japan furnished \$200 million, a share equal to that of the US. Japan has been actively developing peaceful uses for nuclear energy, and in 1970 it signed the Geneva Protocol, which prohibits the use of poisonous and bacteriological weapons. In June 1976, Japan—the only nation to have suffered a nuclear attack—became the 96th signatory to the international Nuclear Nonproliferation Treaty.

Japan has been extending technical and financial aid to many countries, and in 1974 it established the Japan International Cooperation Agency to provide technical assistance to developing nations. Japan also was instrumental in establishing the Asian Productivity Organization, the objective of which is to organize national productivity movements in various Asian countries into a more effective movement on a regional scale. Japan has entered into cultural agreements with many European and Asian nations

and maintains an educational exchange program with the US. Through the Japan Overseas Cooperation Volunteers, Japan sends youths to work in developing countries.

## 19 ECONOMY

Japan's economy is the most advanced in Asia and the second most technologically advanced in the world, behind the United States. Total GDP in nominal terms in 2001, at \$4.147 trillion, was also second only to the United States, but in purchasing power parity (PPP) terms, given the high price level in Japan and the low price level in China, Japan's estimated GDP of \$3.45 trillion (PPP), according to the US Central Intelligence Agency (CIA), put it third behind the United States and China. In per capita GDP, measured in purchasing power parity terms, Japan was fifth among the major nations of the world: \$27,200 (PPP) put it behind only the United States, Switzerland, Denmark, and Ireland according to the CIA estimates. Japan was the first Asian country to develop a large urban middle-class industrial society. It was also the first Asian country where a sharp reduction in birthrate set the stage for notable further increases in per capita income.

Since 1952, the number of farmers has fallen sharply, while expansion has been concentrated in industry and trade. The agriculture sector in 2001 accounted for only 2% of the GDP, although it remains somewhat subsidized, employing a relatively high 5% of the labor force. Domestic raw materials are far too limited to provide for the nation's needs, and imports must be relied on for such basics as many raw cotton, raw wool, bauxite, and crude rubber, with fuels and foodstuffs heading the list materials. The primary engine of Japan's modern growth has been the need to pay for these basic imports with manufactured exports. The exchange of high value-added finished products for low value-added commodities and raw materials has been the basis for both its high level of industrialization and its persistently high trade surpluses. Up until the mid-1980s, economic development depended on continued expansion in exports. With the steady appreciation of the yen in real terms since 1985, however, the country's economic structure has undergone some adjustment. Business investment became the second major engine of growth. Facilitated by growing wage rates, favorable credit conditions, cuts in personal and corporate income tax rates and other stimulative measures by the government, domestic demand as well as direct foreign investment have played an increasingly important role as a source of growth in recent years.

During the late 1980s, a 70% appreciation of the yen's value against the US dollar helped narrow Japan's trade surplus by 19% for two consecutive years in 1988/89 and 1989/90. This was accompanied by low rates of unemployment as well as strong growth in consumer spending and private investment, in turn contributing to a healthy 5% annual growth rate in the GNP between 1987 and 1990. The end of the period of lowered growth, 1975 to 1990, coincided with the collapse of the Cold War confrontation. The period that has followed, 1991 to 2003, has been characterized by very low to stagnant growth, and three dips into recession. The investment boom of the late 1980s, known retrospectively as the bubble economy, had its corresponding bust 1991 to 1994, leaving mountains of debts that still constitute a major drag on the economy because the government continues to hesitate to implement the major restructuring reforms urgently urged on it by outside observers to clear up credit lines for new investment and new forms of business organization. GDP growth rates fell to 1.0%, .3%, .6%, and 1.5% in the period 1992 to 1995. A spurt of recovery to 5% in 1996 was cut short by the Asian financial crisis, and Japan saw its first recession year since 1974 when GDP declined 1% in 1998.

Recovery from the Asian financial crisis was itself cut short in 2001, with the onset of a global slowdown and the aftershocks of

the 11 September 2001 terrorist attacks on the United States: real GDP growth, according to IMF estimates, dropped from 2.2% in 2000 to -0.5% in 2001. Whether 2002 will be a third recessionary since the collapse of the bubble economy remains to be seen. Strong growth in the first quarters of 2002 driven by strong exports were followed by signs of weakening towards the end, as the yen began to strengthen against the dollar, and unemployment reached a new high of 5.4%. The depth of recessions have been minimized by massive stimulus packages and tax cuts across the period of stagnant growth. Recently, major tax cuts have been made in 1999 and 2003, and in 2001, the government implemented its ninth massive stimulus package since 1992, this one for ¥11 trillion (about \$960 billion). The annual budget deficit has been above 7% of GDP since 1999, and is forecast at 7.3% of GDP for 2002. Total national debt, at 146% of GDP, is proportionately the highest among developed countries.

The weakness of the banking sector has become an increasingly acute issue as the stock market, the other major avenue of business capitalization, has virtually collapsed in the context of the 2001–2002 global retrenchment in stock market prices, losing about 80% of its value since 1992. Accompanying corporate scandals and spectacular bankruptcies have done nothing to convince the cautious Japanese that they should forsake their conservative practices like the postal savings programs for riskier stock investments. The Japanese propensity to save has traditionally been high, even before World War II, when it was measured at 12.5% in 1925. Since the World War II, the propensity to consume, the obverse of the propensity to save, has steadily decreased as the economy moved from recovery to high growth to low growth to stagnation: from 95% in 1947 to an estimated 74% in 2001. High savings are matched by high individual indebtedness, due mainly to long term mortgage loans.

The relatively young Prime Minister Koizumi seemed to promise more radical economic reform, but whatever his intentions, the reversals in the global economy in 2001 and 2002 have constrained him to more of the “muddling through” that has characterized Japanese economic policy for the past decade. After a period of recovery following World War II (from 1947 to 1960), Japan entered into about 15 years of rapid growth (1961 to 1975) that was arrested by the world oil crisis, signaled by the first oil shock in 1973. In 1974, for the first time since World War II, the GNP fell (by 1.8%). The recession was cushioned, however, by the nation's ability to improve its trade balance (by \$11 billion) by increasing exports while reducing imports. The recovery of the mid-1970s was slowed by the second oil shock, in 1978–79, and although the Japanese economy continued to outperform those of most other industrial countries, growth in GNP slowed to an estimated 4.1% yearly in real terms for 1979–82, compared with 8.9% for 1969–72.

Meanwhile, the continued stimulation of exports, especially of automobiles and video equipment, combined with Japan's restrictive tariffs and other barriers against imports, led to increasingly strident criticism of the nation's trade practices in the United States and Western Europe. As early as 1971, Japan agreed to limit textile exports to the United States, and in the 1980s it also imposed limits on exports of steel, automobiles, and television sets. Similar limits were adopted for exports to Canada, France (where criticism focused on videocassette recorders), and West Germany. Nevertheless, Japan's trade surpluses with the US and other countries continued to swell through the mid-1980s, helped by a number of factors, most notably the misalignment of major currencies, particularly between the dollar and the yen.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Japan's gross domestic product (GDP) was estimated at \$3.55 trillion. The per capita GDP was estimated at \$28,000. The annual growth rate of GDP was estimated at -0.3%. The average

inflation rate in 2002 was -0.9%. 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 1% of GDP, industry 31%, and services 68%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$505 million or about \$4 per capita. Worker remittances in 2001 totaled \$1.037 billion.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$24,306. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 12% of household consumption was spent on food, 7% on fuel, 2% on health care, and 22% on education. The richest 10% of the population accounted for approximately 21.7% of household consumption and the poorest 10% approximately 4.8%.

## 21 LABOR

The labor force in 2000 numbered 67.7 million persons. The distribution of employed workers in 2002 was as follows: services, 70%; industry, 25%; and agriculture, 5%. The unemployment rate in 2002 was 5.4%. Employers tend toward traditional paternalistic, often authoritarian, control over their workers, but in turn most regular workers have traditionally enjoyed permanent status.

Union membership was always less than half a million before World War II, but jumped to 6.2 million in 1955, and was 11.5 million in 2002. However, the rate of union membership has been decreasing in the past three decades, with 22% of all eligible workers unionized in 1999, compared to 39% in 1955. Union strength is greatest in local government employees, automobile workers, and electrical machinery workers. Most members are organized in units called enterprise unions, which comprise the employees of a single firm. Virtually all organized workers are affiliated with national organizations, of which the largest is the Japanese Trade Union Confederation (Shin-Rengo), established in 1987 following the dissolution of the Japanese Confederation of Labor (Domei), and incorporating the General Council of Trade Unions (Soyho) as of 1989. Collective bargaining is widely utilized, and the right to strike is available to most workers.

Strict enforcement of child labor laws as well as societal values protects children from exploitation in the workplace. Children under age 15 are not permitted to work, and those under 18 are restricted. As of 2002, the minimum wage ranged from \$14 to \$18 per hour, depending on region. Labor legislation mandated a standard workweek of 40 hours.

## 22 AGRICULTURE

Crop production is vital to Japan despite limited arable land (13% of the total area) and the highest degree of industrialization in Asia. Steep land (more than 20°) has been terraced for rice and other crops, carrying cultivation in tiny patches far up mountainsides. With the aid of a temperate climate, adequate rainfall, soil fertility built up and maintained over centuries, and such a large farm population that the average farm has an area of only 1.2 ha (3 acres), Japan has been able to develop intensive cultivation. Agriculture exists in every part of Japan, but is especially important on the northern island of Hokkaido, which accounts for 10% of national production. Since World War II (1939–45), modern methods, including commercial fertilizers, insecticides, hybrid seeds, and machinery, have been used so effectively that harvests increased substantially through the 1970s. Japan is the second-largest agricultural product importer in the world (after the US), with total agricultural product imports of \$34.6 billion in 2001. At \$32.1 billion, Japan had the largest agricultural trade deficit in the world that year.

Almost all soybeans and feedstuffs and most of the nation's wheat are imported. In 1999, Japan produced 11.5 million tons of rice, the chief crop. In that year, rice accounted for about 93% of all cereal production. About 39% of all arable land is devoted to rice cultivation. Overproduction of rice, as a result of overplanting and a shift to other foods by the Japanese people, led the government in 1987 to adopt a policy of decreasing rice planting and increasing the acreage of other farm products. For many years the government restricted imports of cheaper foreign rice, but in 1995 the rice market was opened to imports, as the government implemented the Uruguay Round agreement on agriculture. Other important crops and their annual production in 1999 (in thousands of tons) include potatoes, 3,400; sugar beets, 3,803; mandarin oranges, 1,360; cabbage, 2,400; wheat, 583; barley, 205; soybeans, 187; tobacco, 64; and tea, 91.

As a result of the US-occupation land reform, which began in late 1946, nearly two-thirds of all farmland was purchased by the Japanese government at low prewar prices and resold to cultivators on easy terms. By the 1980s, nearly all farms were owner-operated, as compared with 23% before reform. A more telling trend in recent years has been the sharp growth in part-time farm households. Farmers are aging, and 77% of farm income is derived from other sources, such as industrial jobs. Although agriculture accounts for only 2% of GDP, about 10% of the population lives on farms. Despite increasing urbanization, 59% of all farms still cultivated less than one ha (2.7 acres) in 1999. As a result, Japanese agriculture intensively utilizes both labor and machinery for production. In 1998, Japan had 2,210,000 tractors and 1,208,000 combines.

## 23 ANIMAL HUSBANDRY

Livestock production has been the fastest-growing sector in Japanese agriculture, with meat production increasing from 1.7 million tons in 1970 to three million tons in 2001. In 2001, Japan imported \$8.3 billion in beef, pork, and poultry meat. In 2001 there were 9,780,000 hogs, 4,531,000 head of beef cattle, and 292 million chickens. That year, pork production reached 1,241,000 tons (up from 147,318 tons in 1960); beef, 458,000 tons (142,450 tons in 1960); milk, 8,301,000 tons (1,886,997 tons in 1960); and eggs, 2,514,000 tons. Japan is the single largest recipient of US agricultural exports; over a third of Japan's meat imports come from the US.

## 24 FISHING

Japan is one of the world's foremost fishing nations, accounting on average for about 8% of the world's catch. In 2000, the total catch was 4,989,354 tons, ranking third in the world. The waters off Japan include cold and warm currents in which fish abound. In 1990, there were 416,000 registered fishing boats which sailed both on nearby waters and in other fishing grounds in the Pacific Ocean, the South China Sea, and the Indian and Atlantic oceans. In 1989, per capita daily consumption of fish and shellfish was about 198 gm, one of the world's highest such averages. Annual per capita fish and shellfish consumption from 1988 to 1990 averaged 72 kg (158.7 lb). In 2000, despite domestic fish production, about \$15.5 billion in fish and shellfish was imported in order to satisfy domestic demand.

Whales have been prized in Japan as a source of both food and a variety of byproducts, and Japanese whalers caught 2,769 whales in 1986. Japan ended commercial whaling in 1987, following the imposition of a worldwide ban on the hunting of endangered species of whales by the International Whaling Commission, but announced that it would catch 875 whales for "research" purposes. The 2000 Japanese whale catch of over 16,700 toothed whales of various species represented about 82% of the world's whale catch.

Competition for overseas fishing privileges has at various times brought Japan into conflict with Canada over salmon, with the

former USSR over fishing in the Sea of Okhotsk and other Soviet waters (between 1905 and 1945 Japan had special treaty privileges in these waters), with the ROK and China over their limitations on Japanese fishing operations, with Australia over pearl fishing in the Arafura Sea, with Indonesia over fishing in what Indonesia regards as inland waters, and with the United States, especially over fishing in north Pacific and Alaskan waters. Japan has been adversely affected by the adoption of the 200 mi fishing zone by the United States and more than 80 other world nations. Fishing in waters claimed by the United States (where about 70% of the Japanese catch originates) or by many other nations now requires payment of fees and special intergovernmental or private agreements.

Fish culture in freshwater pools, as well as in rice paddies, has long been practiced in Japan. Aquaculture provides an additional 1.5 million tons of fish annually. The leading species cultivated are laver (*nori*), yesso scallops, Pacific cupped oysters, and Japanese amberjack. Seaweed culture provides winter season activity for many fishermen. Pearl culture has for more than half a century been the foundation of a valuable export industry.

## 25 FORESTRY

Forests cover nearly 64% of the total land area of Japan and in 2000 supplied about half the domestic demand for lumber and wood pulp. Of 24 million ha (59.5 million acres) of forest, the Japanese government owns 30%, which it maintains under strict regulations limiting overcutting. On private forest lands, cutting is less controlled. About 6.6 million ha (16.3 million acres) are reforested with trees less than 20 years old. Forest management and erosion control are urgent necessities in a land where gradients are very steep and flooding is frequent. Japan was the world's third leading producer of paper and paperboard in 2000 (after the United States and China), at over 31.7 million tons.

About 45% of the forest area consists of plantations. The Japanese cedar (*sugi*), which grows in most of Japan, is the most exploited species, followed by Japanese cypress (*hinoki*) and Japanese red pine (*akamatsu*). These three species grow on 10 million ha (24.7 million acres) of plantation forest and were first planted in the 1950s and 1960s. In 2000, roundwood production totaled 18.1 million cu m (639 million cu ft), as compared with 49.1 million cu m (1.7 billion cu ft) in 1965. Domestic roundwood production met 48% of Japan's total wood fiber demand that year; the rest was supplied by imports. In 2001, Japan's 11,692 sawmills processed 17 million tons of logs.

During the 1980s and 1990s, Japan became more reliant on imported wood to satisfy domestic demand. In 2000, Japan imported \$13.3 billion in forest products, second only to the United States. Japan is the world's dominant importer of softwood and tropical hardwood logs, and has become one of the largest importers of softwood lumber, which is mainly used for housing construction.

## 26 MINING

The mining sector was the smallest of Japan's industrial-based economy, accounting for 0.16% of GDP in 1999. The mineral-processing industry, however, was among the world's largest and most technologically advanced, accounting for 5.15% of Japan's GDP, and it played a key role in supplying steel, nonferrous metals, and chemicals for the country's world-class manufacturing sector, as well as to those of the region. Japan was the world's largest producer and consumer of cadmium, the leading producer of selenium metal, electrolytic manganese dioxide, and titanium sponge metal; the second-leading producer of iodine, pig iron, nickel metal, and crude steel; the third-largest producer of copper metal, diatomite, and zinc metal; and the fourth-largest producer of cement. Japan also produced and had considerable resources of limestone, carbonate rocks (construction aggregates and dolomite), clays (bentonite and fire

clay), pyrophyllite, and silica. Since the beginning of the 20th century, most mineral production has undergone a steady decline, and Japan was a net importer of minerals, relying heavily on imports for petroleum, iron ore, chromium, cobalt, copper concentrate (Japan was the world's largest importer), copper metal, primary aluminum, ilmenite, rutile, natural gas, gallium (Japan was the world's largest consumer), uranium, manganese (for all its requirements), indium (the world's largest consumer), nickel (world's largest consumer), and coal, although coal accounted for slightly more than half of all mineral production by value. The construction sector continued its slowdown in 2000, and, with the exception of gold and zinc, Japan's ore reserves for other minerals, especially oil, gas, and metallic minerals, were very low.

Of Japan's \$479.2 billion in total exports in 2000, minerals, mineral-related chemicals, and processed minerals products were valued at \$34.8 billion; iron and steel products, and nonferrous, rare, and other base metals totaled \$23.8 billion; processed mineral products of asbestos, cement, ceramics, glass, mica, and stone, \$5.0 billion; mineral-related chemicals and fertilizer, \$2.2 billion; precious and semiprecious stones, and precious metals, \$1.9 billion; salt, sulfur, earths, stone, plastering materials, lime, and cement, \$312 million; and ferrous and nonferrous metal ores, slag, and ash, \$35 million. Chemicals were Japan's fourth-leading export commodity in 2002.

Among metal minerals, Japan produced 8,400 kg of mine gold (metal content) in 2000, and 103,781 kg of mine silver (87,180 in 1997). Sumitomo Metal Mining, the main producer of gold and silver, planned to boost its output of gold (from 36 tons per year, to 60) and silver (from 300 tons per year, to 480) by 2003, and to expand its copper refining capacity to 400,000 tons per year. In addition, Japan produced the metal minerals alumina, antimony oxide, high-purity arsenic, bismuth, mine copper, germanium oxide, iron ore, iron sand concentrate, mine lead, manganese oxide, rare-earth oxide (including oxide of cerium, europium, gadolinium, lanthanum, neodymium, praseodymium, samarium, terbium, and yttrium), elemental selenium, high-purity silicon, elemental tellurium, titanium dioxide, mine zinc, and zirconium oxide. Gold ore reserves totaled 178,762 kg (metal content); and zinc ore (metal content), 3.25 million tons.

Among industrial minerals, output totals for 2000 were: hydraulic cement, 81.07 million tons (94.49 million tons in 1996); elemental iodine (mostly from Chiba Prefecture), 6,157 tons; diatomite, 190,000 tons; limestone (crushed and broken), 185.6 million tons (201.4 million tons in 1997); dolomite (crushed and broken), 3.54 million tons (4.01 in 1997); bentonite, 415,155 tons (495,646 in 1997); crude fire clay, 506,314 tons (577,666 in 1998); pyrophyllite (from Nagasaki, Okayama, and Hiroshima prefectures), 692,998 tons (913,822 in 1997); silica sand, 2.75 million tons (3.56 in 1996); and silica stone (quartzite), 15.58 million tons (19.03 in 1996). In addition, Japan produced asbestos, elemental bromine, kaolin clay, feldspar, apatite, gypsum, quicklime, nitrogen, perlite, salt, sodium compounds (soda ash and sulfate), sulfur, talc, and vermiculite. Reserves of iodine totaled 4.9 million tons; limestone, 57.9 billion tons; dolomite, 1.19 billion tons; pyrophyllite, 160.4 million tons; silica sand, 200.95 million tons; white silica stone, 880.7 million tons; and kaolin, 36.03 million tons.

Japan's mineral industry consisted of a small mining sector of coal and nonferrous metals, a large mining sector of industrial minerals, and a large minerals-processing sector of ferrous and nonferrous metals and industrial minerals. Mining and mineral-processing businesses were owned and operated by private companies. There were 13 operating metal mines in 2000, and 515 operating industrial mines, employing a total of 12,103 people. The mineral-processing industry produced, among other things, inorganic chemicals and compounds, ferrous metals, industrial minerals, nonferrous metals, petrochemicals, and

refined petroleum products—for domestic consumption and for exports. To clean up mining and mineral-processing sites where soils were contaminated by heavy metals, volatile organic compounds, and petroleum hydrocarbons, Dow Mining Co. Ltd. established a soil remedy business unit to investigate such treatment technologies as incineration, bioremediation, soil washing, and chemical treatment.

In a massive reorganization of the government, 23 ministries and agencies were to be reduced to 13 in 2001, and the Ministry of International Trade and Industry (MITI) would become the Ministry of Economy, Trade and Industry (METI), into which were rolled many agencies and institutes that dealt with mining, geology, metals, chemicals, and the environment. The government, through its Metal Mining Agency of Japan (MMAJ), collaborating with the Japan International Cooperation Agency, continued to promote overseas mineral exploration by providing loans and technical assistance, and by carrying out basic exploration. Among projects supported by MMAJ were reconnaissance surveys for copper, gold, lead, and zinc in the southern Andes region of Argentina, and for copper and gold in north-central Mongolia; exploration for gold in Alta Floresta, Brazil, for copper, gold, and molybdenum in Chile, for copper, gold, and zinc in Umm Ad Damar, Saudi Arabia, and for copper and gold in Papua New Guinea, Bolivia, the Philippines, and Oman; discoveries and further exploration for gold in Baoulé-Banifing and Kekoro, Mali; and regional development planning for lead and zinc in Krib-Mehéz, Tunisia. In line with its mineral policy to secure and diversify its long-term supply of raw materials, Japan was expected to continue its active search for direct investment in joint exploration and development of minerals in developed and developing countries. The targeted minerals were antimony, chromium, coal, columbium (niobium), copper, gold, iron ore, lead, lithium, manganese, molybdenum, natural gas, nickel, crude petroleum, rare earths, silver, strontium, tantalum, titanium, tungsten, vanadium, and zinc.

## 27 ENERGY AND POWER

As of 2002, Japan was the second-largest energy consumer in the world, topped only by the United States. Japan's primary energy needs in 2001 were supplied by oil (52%), coal (15%), natural gas (13%), nuclear power (15%), hydroelectricity (4%), and other renewable sources (1%). With nearly no oil reserves of its own, in 1999 Japan depended on imports for more than 79% of its primary energy. However, exploration for petroleum continues in the East China Sea and the Sea of Japan. Japan ceased coal production in 2000, when it closed its last operating mine, at Kushiro. To meet the growing requirements for steam coal by power plants, Japanese trading companies and energy firms are seeking long-term supply contracts with Australia, China, Colombia, New Zealand, South Africa, and the United States.

To reduce its reliance on oil and its carbon dioxide emissions, Japan has aggressively pursued development of nuclear power since the 1980s, with nuclear production doubling between 1985 and 1996. As of 2002 Japan ranked third, behind the United States and France, in nuclear power production and planned to increase the percentage of nuclear-generated electricity to 30% by 2010 in spite of growing public opposition fueled by a series of accidents at nuclear power plants, especially the event at the Tokaimura uranium processing plant in September 1999. As of 2002, Japan had 51 reactors in operation, with a total capacity of 45 GW. These included the world's first Advanced Boiling Water Reactor, which came online in 1997.

In 2000 Japan had an output of 1,015 billion kWh of electricity, of which 60.1% was from fossil fuels, 8.5% from hydropower, 29% from nuclear power, and under 2% from renewable sources. Electricity is provided by several private companies, with the public Electric Power Development Co. and the Japan Atomic Power Co. playing supplementary roles in

distribution. As of 2001, total electricity generating capacity stood at 234.5 million kW.

In 2002 Japan imported some 5.3 million barrels of oil per day, primarily from the UAE, Saudi Arabia, and Indonesia; 145 million tons of coal, mostly from Australia and Canada; and 74.7 million cu m (2.64 billion cu ft) of natural gas, primarily from Indonesia.

## 28 INDUSTRY

Manufacturing has been a key element in Japan's economic expansion during three periods of phenomenal growth. First, during the 50-year rise of Japan from a feudal society in 1868 to a major world power in 1918, output in manufacturing rose more rapidly than that of other sectors. Second, during the 1930s, when Japan recovered from the world depression earlier and faster than any other country and embarked on an aggressive course in Asia, manufacturing, especially heavy industries, again had the highest rate of growth. Third, in the remarkable recovery since World War II, manufacturing, which had suffered severely during the latter stages of the war, was again a leader, although commerce and finance expanded even more rapidly.

Japanese industry is characterized by a complex system of exclusive buyer-supplier networks and alliances, commonly maintained by companies belonging to the same business grouping, or *keiretsu*. Such a system utilizes a web of vertical, horizontal, and even diagonal integration within the framework of a few large conglomerations. Keiretsu firms inhibit the foreign acquisition of Japanese firms through non-transparent accounting and financial practices, cross-holding of shares among keiretsu member firms (even between competitors), and by keeping a low proportion of publicly traded stock relative to total capital.

During the 1970s and early 1980s, the rate of Japan's industrial growth surpassed that of any other non-Communist industrialized country. Of the 26 largest industrial companies in the world in the mid-1980s—those with sales of \$20 billion or more—four were Japanese: Toyota Motor, Matsushita Electric, Hitachi, and Nissan Motor. In addition to spectacular expansion in the volume of output, Japanese industry has also achieved impressive diversity, with maximal application of efficiency standards and technological input. In 1997, industry accounted for about 38% of GDP and 33% of the total labor force. However, the Asian financial crisis that beset the region as Hong Kong was formally transferred to China impacted Japan's industrial production growth, which went from 9.6% in 1997 to -6.9% in 1998. Growth was still negative in 1999, but only by -0.1%, and in 2000 positive growth had returned as industrial production rose 5.3%. The recovery was short lived. The global slowdown of 2001 compounded by the economic aftershocks of the 11 September 2001 terrorist attacks on the United States contributed to a relatively massive 8.3% decline in industrial production in Japan in 2001. Estimates are that the decline continued in 2002, but only by .1%. In the meantime, the percent of Japan's labor force in industry had dropped from 40% in 1997 to 30% in 2001.

A brief recession forced production cutbacks in 1965; a deeper recession in 1974, related to rising world oil costs and diminished supplies, slowed Japan's economy in 1973-75 and again in 1978-80. At the same time, wage rates rose substantially, thereby reducing Japan's competitive advantage vis-à-vis other industrialized nations and prompting a major government effort to promote high-technology industries capable of making the most efficient use of the high educational level and technical competence of the Japanese labor force. Japan's industrial strategy, which involves close cooperation between business, government, and labor, was coordinated by the Ministry of International Trade and Industry (MITI). Particular emphasis was given by MITI and other government agencies to encouraging

and assisting research and development of new products and technologies.

Facing increasingly stiff competition from overseas trading partners in the 1980s, Japanese firms responded with several strategies, including product diversification, increased investment in overseas plants, as well as a greater focus on production for the domestic market. Despite declining profits with the economic downturn of the early 1990s, Japanese companies continued to make large investments in new plants and equipment; in 1992, these outlays amounted to over 20% of the GDP, well outstripping the level of private investment in the United States. Since 1992, the government has implemented nine massive stimulus packages, including large investments in public projects like roads, bridges, and airports, in its efforts to spark renewed growth, or, at least, prevent a deeper recession.

Manufacture of electrical machinery ranks first in value added, accounting for about 18% of the total in 1991. Nonelectrical machinery ranks second, accounting for 12% of total manufacturing value added, followed by transportation equipment (10% of MVA) and chemicals (9% of MVA). The electronics industry grew with extraordinary rapidity in the 1980s and now leads the world. Radio and television sets and household appliances have been exported in large quantities since World War II; in addition to generators, motors, transformers, and other heavy equipment, the industry now produces automatic devices, electronic computers, videocassette recorders, tape recorders, calculators, and communications and broadcasting equipment. Major electronic products in 1991 included 4.5 million facsimile machines; 18.2 million telephones; 3.0 million computers; 28 billion transistors; and 17.7 billion semiconductor integrated circuits. Also produced that year were 11.2 million radios, 15.6 million television sets, and 30.7 million videocassette recorders. Other manufactures in 1991 included 389.8 million watches, 17.7 million 35-mm still cameras, and 4.3 million microwave ovens. Japan plays an increasingly important role in the computer industry. The production value of Japanese personal and general purpose computers totaled ¥2.4 trillion in 1991. By 1987, Japan was fiercely competing with the US in developing high-tech products, such as superconducting materials.

Japan is the world's leading shipbuilder; more than half the ships built are exported, including some of the world's largest oil tankers. Rapid increases in shipbuilding capacity by Brazil and South Korea reduced demand for Japanese-built ships from a peak of 38 million gross tons of new orders in 1973 to 7.0 million gross tons in 1991. The decline prompted direct government intervention in the ailing industry and the closing of close to 37% of dockyard facilities in 1980.

Passenger car production expanded rapidly in the 1970s, as Japan moved to fill rising demand for fuel-efficient cars in the US and Europe. In the early 1980s, Japan emerged as the world's leading automobile producer, topping the US for the first time in the history of the industry. Dominant industry giants are Nissan and Toyota, which together produced about three-fifths of all passenger cars in the mid-1980s. In 1995, a total of 10,195,536 passenger cars, trucks, and buses were manufactured (down from a high of 13,486,796 in 1990). Restrictions imposed on Japanese automobile exports have promoted a marked increase in Japanese investment in automobile manufacturing facilities (engine manufacture, assembly as well as research and development) in the United States, Western Europe, and other overseas markets. In recent years, Japanese manufactures have also sustained growth through greater focus on producing for the booming domestic motor vehicle market, currently the second-largest in the world. Japan's superior technology in the design of bicycles, motorcycles, buses, and high-speed trains has been another major factor in the growth of the transport industry.

The chemical and petrochemicals industry has been another of the economy's key growth sectors since the late 1960s, in part due to rising domestic demand. Products include industrial chemicals such as sulfuric acid, caustic soda and fertilizers, as well as plastics, dyestuffs, paints, and other items for domestic use. Polyethylene production increased by 10–15% annually during the late 1980s; output in 1991 was 2,982,000 tons. Japan must import much of the iron ore and coking coal used in its steel industry, which ranked second only to the former USSR's in the mid-1980s. Output of crude steel peaked at 119.3 million tons in 1973 but declined to 101.6 million tons in 1995.

Textiles and apparel, Japan's main exports during the years immediately following World War II, have steadily declined in importance and accounted for only 2.5% of total value added in 1991 (as compared with 3.5% in 1985). Output of cotton and woolen fabrics, yarns, and rayon and acetate remains substantially below 1965 levels. The Japanese textile industry has been especially hard hit by rising wage rates and competition from developing nations, especially the other industrializing countries of East Asia.

Japan's semiconductor business has grown in size and profit due to the trade pact between Japan and the United States. While some argue that this pact had a negative effect on Japan's domestic chip market, it now appears, that these chip companies have become more efficient and therefore more profitable. Both the United States and Japan have become so intertwined in the semiconductor area that neither could afford to terminate the relationship.

During the severe recession of the 1990s, Japan's industrial production rate declined by 6.9% in 1998. Japan's major industries continue to be steel production, heavy electrical equipment, automobiles and parts, telecommunication equipment, chemicals, ship building, and processed foods. Japan's fishing industry is the largest and most productive in the world, and Japan has surpassed the United States as the largest manufacturer of automobiles.

## 29 SCIENCE AND TECHNOLOGY

The Japanese rank second only to the United States in spending on scientific research and technology development. However, in Japan, 80% of all research and development is carried out by industry, in contrast to the United States, where industry undertakes about half of all research and development (the US government supports the rest). This is important because industry is more likely to support the type of research that will result in new technologies and products. For many people, this breakdown of research and development funding explains why Japan has become such an economic powerhouse: much more of the total research and development budget is focused on near-term and commercial science and technology. Some of the more successful applications of the fruits of Japanese research and development include high-speed trains, robotics, semiconductor chips, telecommunications, cancer research, and environmental technologies.

In 1987–97, science and engineering students accounted for 21% of college and university enrollments. Nearly 5,000 scientists and engineers per million population worked in research and development in 1987–97. Despite Japan's economic downturn in the 1990s, it is likely that investments in both equipment and personnel will grow. In 1998, high-tech exports were valued at \$94.8 billion and accounted for 26% of manufactured exports.

In terms of the Japanese government's role in national science and technology, three ministries are important. The Ministry of Education, or Monbusho, provides most of the support and funding for scientific education and training at the university level in Japan. In the 1990s, Monbusho led a national effort to improve science and technology education at universities,

particularly in "basic" research (areas where research does not necessarily have to pay off in commercial products). Another organization, the Science and Technology Agency (STA) promotes science and technology policies, and acts as the Prime Minister's leading policy and budgetary agency. It performs this function through annual "white papers" which describe the current state—and future goals—of Japanese science and technology. The Ministry of International Trade and Industry (MITI) is probably the ministry best known by Americans. MITI promotes and protects Japanese industry by sending them signals and giving guidance to those firms which undertake research and development. MITI has been instrumental in providing close government-industry cooperation in many high technology fields, including computers, electronics, and biotechnology.

Regional research institutions such as Tskuba Science City and Kansai Science Park also play a role in fostering Japanese research and development. Their growth since the 1970s has begun to shift some of the focus and power of the national government and industry in Tokyo to the regional prefectures. International cooperation with the United States in areas like global warming and space launches may create new opportunities for greater scientific research at local, regional, and national levels in Japan.

Japan has numerous universities and colleges that offer courses in basic and applied sciences. The country's National Science Museum, founded in 1877, is located in Tokyo. The University of Tokyo has botanical gardens that were established in 1684.

### 30 DOMESTIC TRADE

At least half of all consumer goods are purchased through small, privately owned and operated shops. Street hawkers and peddlers provide certain foods and small consumer items; street stalls offer food, clothing, and household and other goods. Specialty shops exist in great profusion, and about 100 associations of such shops represent common interests. There are chain stores owned and operated by a single management and there are voluntary chains of independent stores operating in association. Japan also has numerous cooperatives, principally consumer, agricultural, and fishing. Recent revisions in the large-scale retail store law have loosened government regulation of the distribution system, allowing the establishment of large foreign discounters and mega-stores such as Toys-R-Us, which are likely to offer growing competition to smaller retailers in the future. As of 2002, Japan's franchise industry was the fourth largest in the world with over 900 chains accounting for about 10% of all retail sales.

A key characteristic of the country's distribution system has been the long term and carefully cultivated nature of the supplier and wholesaler or retail store relationship, necessitating considerable commitment of time and outreach effort by foreign companies wishing to enter the Japanese market.

In retail trade, cash transactions have been traditional, but various forms of installment selling are increasingly being used, especially in the sale of durable goods. The use of charge accounts is growing rapidly. Promotion by displays, advertising, and other methods used in Western countries is increasing rapidly in Japan. Advertising appears in the daily press, in the numerous weekly and monthly magazines, and in special publications of many kinds. Radio and television also carry extensive advertising, excepting those channels run by the government's Japan Broadcasting Corporation.

Normal shop hours are 10 AM to 8 PM, seven days a week, although department stores shut their doors at 7 PM and are closed one day a week; government offices are open 9 AM to 5 PM, Monday through Friday, and from 9 to 12:30 on the first and third Saturday of every month only. Banks are open from 9 AM to 3 PM Monday through Friday, and are closed on Saturdays and Sundays.

### 31 FOREIGN TRADE

Foreign trade remains essential to the Japanese economy. Imports consist mostly of fuel, foodstuffs, industrial raw materials, and industrial machinery. Exports are varied, but manufactures now account for nearly all of the total. Cars represent a leading export product, with the United States, Canada, Australia, Germany and the United Kingdom as the main markets. The export of office machinery, scientific and optical equipment is also important. South Korea, China, and Taiwan are among the main buyers of Japan's iron and steel, while plastic materials and fertilizers are shipped primarily to South Korea and the Southeast Asian countries, and woven fabrics are supplied to China, the United States, Hong Kong, and Saudi Arabia. Only a small fraction of Japan's total exports (around 0.5%) consists of food items, mainly fish.

In light of growing overseas concern about Japan's continuing large trade surplus, the US and Japanese governments collaborated on the Structural Impediments Initiative of 1989. Steps taken in the wake of the Initiative's 1990 report have included a variety of import and direct foreign investment promotion measures, including deregulation, accelerated government spending on public infrastructure, and support services for foreign businesses.

Manufactured products make up most of Japan's commodity exports, and 15% of the world's total manufactured exports. The automobile is the country's most important industry (12%), along with computers and electronic equipment (6.6%). Japan also makes 26% of the world's exported ships. The top 10 exports of 2000 were:

	% OF COUNTRY TOTAL
Automobiles	11.8
Transistors, valves, etc	8.9
Telecommunications equipment	6.4
Electronic microcircuits	5.7
Car parts	3.6
Office machine parts	3.5
Computers	3.1
Switchgear	2.8
Engines	2.5
Ships and boats	2.1

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

Consumer goods	16.3%
Food	10.9%
Fuels	20.3%
Industrial supplies	22.6%
Machinery	23.8%
Transportation	4.5%
Other	1.6%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	143,977	72,509	71,468
China (inc. Hong Kong)	57,562	55,100	2,462
Korea	30,699	20,446	10,253
Singapore	20,819	6,433	14,386
Germany	19,996	12,723	7,273
United Kingdom	14,830	6,577	8,253
Malaysia	13,886	14,493	-607
Thailand	13,633	10,594	3,039
Australia	8,571	14,800	-6,229
Indonesia	7,594	16,380	-8,786

### 32 BALANCE OF PAYMENTS

Beginning in 1981, surpluses in Japan's current accounts increased rapidly, reaching \$49 billion in 1985 and \$86 billion in



1986, the latter being 18 times the level of 1981. These huge surpluses resulted largely from the high value of the dollar relative to the yen; price declines of primary goods, such as petroleum, also enhanced Japan's favorable trade position. Japan's mounting surpluses and the rising deficits of the US forced the US and other leading industrial nations to attempt to realign their currencies, especially the dollar and the yen, in September 1985. Within two years the yen rose 70% against the dollar. The yen's appreciation increased the competitiveness of American products and contributed to the reduction of Japan's external imbalances through 1990, when the current account surplus fell by 37.4%, due to higher expenses for imported oil and rising expenditures by Japanese traveling abroad. Whereas long-term capital outflows exceeded Japan's current account surplus from 1984 through 1990, by 1991 the outflow shifted predominantly to short-term capital, and overseas direct investment slowed.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Japan's exports was \$383.8 billion while imports totaled \$292.1 billion resulting in a trade surplus of \$91.7 billion. Japan had the highest trade and current account surpluses in the world in the early 2000s; however, Japan is less open to trade than other highly developed economies. As a percentage of current-price GDP, the value of Japan's two-way foreign trade in 2001 was just 16.8%, compared with Germany's 57% and China's 42.4%. This is due in part to restrictions on merchandise imports to protect the country's less efficient industry sectors. Due to this lack of openness to trade, the country's economy has stagnated, and companies in the nontradable sectors have not been productive.

The International Monetary Fund (IMF) reports that in 2001 Japan had exports of goods totaling \$384 billion and imports totaling \$313 billion. The services credit totaled \$65 billion and debit \$108 billion. The following table summarizes Japan's balance of payments as reported by the IMF for 2001 in billions of US dollars.

<b>Current Account</b>	<b>88</b>
Balance on goods	70
Balance on services	-44
Balance on income	69
Current transfers	-8
<b>Capital Account</b>	<b>-3</b>
<b>Financial Account</b>	<b>-48</b>
Direct investment abroad	-39
Direct investment in Japan	6
Portfolio investment assets	-107
Portfolio investment liabilities	61
Other investment assets	47
Other investment liabilities	-18
<b>Net Errors and Omissions</b>	<b>4</b>
<b>Reserves and Related Items</b>	<b>-40</b>

### 33 BANKING AND SECURITIES

Japan's highly sophisticated banking system continues to play a dominant role in financing the country's and the world's economic development, despite Japan's decade long recession. In the mid-1980s, while the US was becoming a debtor nation, Japan became the world's largest creditor. Banks provide not only short-term but also long-term credit, which often in effect becomes fixed capital in industry. In terms of sheer size, Japanese banks occupy some of the top spots in worldwide bank ratings.

The controlling national monetary institutions are the Bank of Japan (founded in 1882) and the Ministry of Finance. The Bank of Japan, as central bank, has power over note issue and audits financial institutions to provide guidance for improving banking and management practices. Ceilings for interest rates are set by the bank, while actual rates, commissions, and discounts are

arranged by unofficial agreements among bankers and other financial institutions, including the National Bankers' Association. A new banking law, replacing the National Banking Law of 1928, was adopted in 1982. Its objectives were to increase competition in the financial world by enabling banks to sell bonds and by authorizing both banks and securities firms to sell commercial paper and certificates of deposit.

Eleven important city banks, with branches throughout the country, account for about two-thirds of all commercial bank assets, the rest accruing to 131 regional banks, 7 trust banks, and 83 foreign banks. In addition, 112 foreign banks have representative offices in Japan. Of special interest are the postal savings facilities, which are used by many Japanese families and have assumed many of the aspects of a huge state-owned banking business.

The Foreign Exchange Law was changed to totally liberalize cross-border transactions in 1998. Important foreign exchange banks include the city banks, long-term credit banks, trust banks, major local banks, major mutual loan and savings banks, and the Japanese branches of foreign banks. Such governmental financial institutions as the Japan Export-Import Bank, the Central Bank for Commercial and Industrial Associations, and the Central Bank for Agriculture and Forestry also participate in foreign exchange markets.

The rapid expansion of bank lending and the importance of land and stocks as assets in Japan's financial sector have exposed its financial institutions to the risks stemming from falling asset prices. Thus one of the root problems of Japan's difficulty in returning to a trend rate of GDP growth lies in the fragility of the financial sector. Banks and other financial institutions have been rocked by the huge sums of non-performing debt, stemming from an earlier lending spree based on inflated land values as collateral. In the aftermath of the collapse of the "bubble economy," many of the generous loans extended, especially to land and property developers, cannot be repaid or even serviced. Japan's 21 major banks, including the 11 city banks, wrote off about ¥11 trillion (\$102 billion) of bad debts at the end of March 1996.

The bad debt held by the seven failed "jusen" (housing loan companies established by banks and agricultural financiers), which were liquidated partly at public expense, led to huge secondary losses in other areas of the financial sector. The liquidated *jusen* moved their assets to the newly established Housing Loan Administration Corp., which had the responsibility, from the beginning of its operations in October 1996, of recovering loans from the seven companies. This was unlikely, however, since not only would many property companies go bankrupt, but also much of the bad debt was extended illegally or to companies associated with *yakuza* (gangsters). Consequently, several *jusen* executives were arrested in 1996 on charges of alleged aggravated breach of trust.

The most dramatic merger was that between the Bank of Tokyo and Mitsubishi Bank in April 1996. This "mega-merger" created the world's largest bank, which became highly competitive in global financial markets. In 1999, three Japanese banks: Dai-Ichi Kangyo Bank, Fuji Bank, and IBI, announced a merger worth more than \$1.3 trillion, surpassing all other large financial institutions. The other premier Japanese banks in 1999 were Sumitomo Bank, Sanwa Bank, and Sakura Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2,318.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$5,293.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 0.06%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 0.1%.

Major securities exchanges are in Tokyo, Hiroshima, Fukuoka, Nagoya, and Osaka; small regional exchanges are in Kyoto, Niigata, and Sapporo. Although prior to World War II most stocks were held by large business firms (zaibatsu), stocks are now available for public subscription. The Tokyo Stock Exchange, the largest in the world, is the most important in Japan.

In the late 1980s, there were three categories of securities companies in Japan, the first consisting of the "Big Four" securities houses (among the six largest such firms in the world): Nomura, Daiwa, Nikko, and Yamaichi. The Big Four played a key role in international financial transactions and were members of the New York Stock Exchange. Nomura was the world's largest single securities firm; its net capital, in excess of US\$10 billion in 1986, exceeded that of Merrill Lynch, Salomon Brothers, and Shearson Lehman combined. In 1986 Nomura became the first Japanese member of the London Stock Exchange. Nomura and Daiwa were primary dealers in the US Treasury bond market. The second tier of securities firms were affiliates of the Big Four, while some were affiliated with banks. In 1986, 83 of the smaller firms were members of the Tokyo Securities and Stock Exchange. Japan's securities firms derived most of their incomes from brokerage fees, equity and bond trading, underwriting, and dealing. Other services included the administration of trusts. In the late 1980s a number of foreign securities firms, including Salomon Brothers and Merrill Lynch, became players in Japan's financial world.

The Tokyo Securities and Stock Exchange became the largest in the world in 1988, in terms of combined market value of outstanding shares and capitalization, while the Osaka Stock Exchange ranked third after Tokyo and New York.

### 34 INSURANCE

After 56 years, the Japanese Insurance Business Law was revised in 1997. The purpose of the newly revised law is competition, to protect policy holders, and to promote greater management efficiency. The law allowed, for the first time, cross entries of life and nonlife companies into each other's sector through the establishment of subsidiary companies. In response to this development, six life and eleven nonlife insurance companies set up subsidiaries. Firms may not engage in life and nonlife insurance at the same time. In 2000, leading Japanese nonlife insurance firms included Tokio, Yasuda, Mitsui, Sumitomo, Nippon, Dai-Tokyo, Nichido, and Chiyoda. Leading life insurance companies included Nippon, Cai-Ichi, Sumitomo, Meiji, Yasuda, and Asahi. Direct premiums written in 2001 totaled US\$445.845 billion.

Life insurance is by far the most extensive of all classes of insurance; premium income is more than three times that of all nonlife premium income. In 2001, life insurance premiums written totaled US\$356.731 billion, while nonlife insurance premiums totaled US\$89.114 billion. Japan is the world's largest holder of life and health insurance. More than 90% of the population owns life insurance, and the amount held per person is at least 50% greater than in the United States. Nippon Life Insurance Co., the world's largest insurance firm, had US\$46.6 billion in gross premiums written in 2001.

In the nonlife field, automobile insurance is the largest sector. (Automobile liability insurance is compulsory.) Personal accident insurance was next in importance, followed by fire, marine cargo, and marine hull insurance.

In the mid-1990s the combined Japanese life and nonlife insurance market had the world's largest share with 30.8% of the world total premium. The life insurance market was 42.6% of the world market, and the nonlife market with 15.2%, the second-largest in the world after the United States. The Japanese nonlife insurance market consisted of 29 domestic companies and

the life insurance market consisted of 36 domestic companies in 1997.

### 35 PUBLIC FINANCE

Plans for the national budget usually begin in August, when various agencies submit their budget requests to the Ministry of Finance. On the basis of such requests, the ministry, other government agencies, and the ruling party start negotiations. The government budget plan usually is approved by the Diet without difficulty, and the budget goes into effect in April. Deficits, financed by public bond sales, have steadily increased in size since the 1973 oil crisis. As a result, the ratio of gross debt to GNP has risen from 8% in 1970 to 60% by 1987. By 1990, debt servicing was absorbing over 20% of budgeted expenditures.

Since 1982, Japan has pursued tight fiscal policies and has attempted to constrain government debt. In June 1987, however, as a response to appeals from other nations to reduce international imbalances, Japan initiated a \$35 billion public works spending package, followed up by \$10 billion in tax cuts. In recent years, however, fiscal stimulus policies have contributed to an increasing budget deficit. Japan's government deficit was 3% of GDP in 1994 and reached 4.3% of GDP in 1995, due to ongoing high levels of public sector borrowing. The government's focus on fiscal policy to compensate for a tight monetary policy has restricted spending on infrastructure, yet by 2002, the deficit had reached 7.8% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 2002 Japan's central government took in revenues of approximately \$441 billion and had expenditures of \$718 billion including capital expenditures of \$84 billion. Overall, the government registered a deficit of approximately \$277 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>441,000</b>
Tax revenue	81.1%	357,735
Non-tax revenue	14.9%	65,827
Capital revenue	0.6%	2,513
Grants	3.4%	14,924
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>718,000</b>
General public services	2.4%	17,157
Defense	4.1%	29,484
Public order and safety	1.2%	8,885
Education	6.0%	43,276
Health	1.6%	11,479
Social security	36.8%	264,217
Housing and community amenities	13.8%	98,788
Recreation, cultural, and religious affairs	0.1%	1,013
Economic affairs and services	3.3%	23,996
Other expenditures	30.6%	219,705

### 36 TAXATION

After World War II, Japan adopted a tax system relying mainly on direct taxes, like those in the United States and the United Kingdom. The most important of these are the income tax and corporation tax. General government revenues amounted to 29.3% of GDP in 2001 according to IMF estimates, the lowest figure among the major industrialized countries. Expenditures amounted to 36.6% of GDP the same year, creating a deficit amounting to 7.3% of GDP, the highest among the major industrialized countries. Since the mid-1960s, when Japan abandoned a balanced budget policy, the government has relied on bonds to finance its budget deficit.

The National Tax Administration Agency, a branch of the Ministry of Finance, administers income and corporation tax laws. In addition, the Tax System Council files recommendations

for revision of the system every three years. Individuals are subject to a national income tax as well as local (prefectural and municipal) residence and business taxes. In 1996, income tax rates ranged from 10% on taxable income of ¥3.3 million or less to 50% on income over ¥30 million. By 2001, the top rate had been reduced to 37%. Combined local taxes are applied at the rates of 5% to 15%. In 1993, the national corporate income tax rate was 37.5%, with a local inhabitants tax of 17.3% to 20.7% and a local enterprise tax of 6% to 13.2%. By 2001, the corporate income tax rate had been reduced to 30%. These rates are exclusive of temporary surtaxes and a capital gains tax.

Additional national taxes include customs duties; a 5% value-added tax; a stamp tax; inheritance and gift taxes; a monopoly profits tax; a sugar excise tax; taxes on liquor, gasoline, and other commodities; and travel, admissions, and local road taxes.

### 37 CUSTOMS AND DUTIES

The Japanese tariff system is administered by the Customs Bureau of the Ministry of Finance. Under pressure from trading partners alarmed over their trade deficits with Japan, the government in 1979 agreed to implement over an eight-year period (subsequently accelerated) a series of tariff cuts and associated market-opening measures known as the Tokyo Round Mutual Tariff Reductions. The Tokyo Round lowered the effective overall tariff rate from 3.7% to 3%, one of the world's lowest, with nearly half of all imports entering without levy. As of 1997, the tariff was 2%. However, import duties remain relatively high for certain agricultural and manufactured goods. In 1987, tariffs were removed from tobacco and liquor (except beer and sake), and the rates on aluminum products were lowered. Quantity quotas and tariff quotas are still applied to some goods. There is a free trade zone at Naha, on Okinawa; no free trade zones function on the main islands.

### 38 FOREIGN INVESTMENT

Cumulative foreign investment in Japan (since 1950) totaled \$37,918 million as of 1995, of which US firms held 41%; Netherlands, 9%; Switzerland, 6%; Germany, 5%; Canada, 4%; UK, 4%; and others, 31%. In 1995/96, most foreign direct investment in Japan was directed towards the manufacturing sector (40%, half of it in machinery), followed by services (31%), retail and wholesale trade (22%), and finance and insurance (4%). Annual new investment into Japan rose from \$2.78 billion in 1989/90 to \$7.08 billion in 1995/96; average annual new investment between 1989/90 and 1995/96 was \$4.19 billion. Due to continued recession, new foreign direct investment slumped to \$5.53 billion in 1997, the last year for which statistics are available.

Japanese investments abroad have expanded steadily since the 1970s, the result both of liberalization on the outflow of capital and of the prosperity of the Japanese economy. It has also been due in part to increased investment in the US and EU as a conciliatory move to lessen the trade gap between Japan and the two industrial regions. Net annual direct investment outflows remained near \$5 billion in the late 1970s but climbed steadily between 1985 and 1991 when they reached \$48 billion, declining somewhat to \$30.7 billion in 1992. Overseas direct investments made by Japan totaled \$41 billion in 1993/94 and \$51.4 billion in 1994/95. In 1996, Japan reportedly invested \$50 billion overseas and attracted only about \$7 billion in inward direct investment. Of the total Japanese overseas investment of ¥5,409.4 billion outstanding in 1995/96, ¥2,478.9 billion was invested in the US (up from ¥1,852.5 billion in 1993/94), ¥387.3 billion in the UK, ¥282.8 billion in China, ¥272 billion in Indonesia, ¥167.5 billion in Hong Kong, ¥158.1 billion in Thailand, ¥125.6 billion in Singapore, ¥123.8 billion in the Netherlands, ¥117.3 billion in the Cayman Islands, and ¥113.7

billion in Panama. In 1995/96, some 48% of Japanese investment was in North America (up from 32% in 1985), 24% in Asia, 9% in Latin America and the Caribbean, 15% in Europe, 2% in Oceania, and the remainder in Africa and the Middle East. About 42% of the investment total in 1995/96 was in manufacturing: electronics accounted for 14%; transportation equipment, 8%; metals, 5%; chemicals, 4%; machinery, 3%; and other manufacturing, 8%. Nonmanufacturing sectors (58% of total investment) included: finance and insurance, 16%; real estate, 13%; commerce and trade, 10%; services, 8%; transportation, 4%; mining, 3%; and other sectors, 4%.

Foreign investment in Japan is far less than in other G-7 countries. One reason for this is that in the past, the Japanese government discouraged foreign investment. A second but perhaps more significant reason is the high cost of doing business in Japan, which, in turn, reduces profits. Some of the barriers are now less significant with the signing of the US-Japan Investment Accord signed in July 1995.

There is still a marked imbalance in Japan's investment in other countries compared to other countries investing in Japan, i.e., the former is far greater than the latter. As an example, in terms of million of dollars invested by Japan in 1994 and 1995 Japan invested \$17,331 million in the US in 1994 and \$22,649 million in 1995. During those same two years, the US invested \$1,915 million and \$1,837 million, respectively, in Japan. During those same two years, Germany invested \$502 million and \$174 million in Japan, respectively, while Japan invested \$727 million and \$550 million, respectively, in Germany. In 1996 Japan's ratio of inward to outward foreign direct investment flows was 1:9.77.

South Korea invested \$71 million and \$68 million in Japan during 1996 and 1997, respectively, while Japan invested \$415 million and \$443 million in South Korea during those same years. The imbalance between China and Japan is even greater. During 1994 and 1995, China invested \$19 million in Japan, while Japan invested slightly over \$7,000 million in China. One should not conclude that barriers account for this imbalance.

### 39 ECONOMIC DEVELOPMENT

Japan's phenomenal economic growth since the 1950s has been based on an efficient blend of two economic tendencies. First is government activism in national planning and implementation, with guidance of the largely free economy via sophisticated and powerful monetary and fiscal policies. Second is the distinctively Japanese way of coupling largely private ownership of assets with conservative, public-spirited management. Especially significant is the role of the Ministry of International Trade and Industry (MITI), which coordinates national industrial policies consistent with economic and social growth. In a unique government-industry collaboration sometimes referred to overseas as "Japan, Inc.," MITI selects and nurtures industries targeted as important to Japan's future economic growth. Industries so targeted have included chemicals, iron and steel, shipbuilding, and transistor radios in the 1960s; automobiles and electronics in the 1970s; and computers, computer chips, and other high-technology industries for the 1980s. In addition to stimulating new industries, MITI also smoothes the way for plant closings and worker retraining in industries targeted for de-emphasis, such as textiles in the 1970s and the ailing coal-mining and shipbuilding industries in the 1980s. Most recently, MITI has also assumed an active role in lessening Japan's positive trade imbalances through a variety of import promotion measures, in collaboration with both domestic companies and foreign firms. Close ties between government and industry are illustrated by the ministries' issuance of informal "administrative guidance" to Japanese companies, the frequent placement of retired bureaucrats in Japanese companies and trade associations, and the delegation of

quasi-regulatory authority to trade associations (which are often allowed to devise and regulate their own insider rules).

The objectives of maintaining rapid GNP growth, controlling inflation, and developing Japan's social and industrial infrastructure have been the concern of the Economic Planning Agency, which produced the successful Ikeda plan (to double the national income between 1961 and 1970) and releases projections of key indicators at frequent intervals. In the main, the Ikeda plan consisted of a series of projections of growth in a free market economy, with the basic assumption—the continued growth of Japan's overseas trade—largely outside of government control. During the plan's 10-year span, an annual growth of 11% in GNP was realized, as against the forecast rate of 7.2%. An economic and social development plan (1967–75) accomplished a GNP growth rate of 10.6%, as against 8.2% projected.

A second economic and social plan (1970–75) projected a continued annual growth rate of 10.6%. The 1973 world oil crisis and its aftermath severely shook Japan's trade-dependent economy, however; in 1974, the GNP actually shrank by 1.8%, the first such negative growth in three decades. In 1975, the cabinet approved a new economic and social plan for 1979–85 calling for an average annual growth rate of 5.7%. However, the impact of the second oil crisis in 1978 necessitated downward revisions of projected growth targets. Plans to stimulate the economy by increasing public-works spending and cutting taxes were approved in October 1983 and in May 1987. Also enacted in 1989 was a value-added tax to strengthen the government's revenue base while allowing reductions in personal and corporate income tax.

In 1988, a five-year plan was adopted to sustain real GNP growth at 3.8% per year, maintain low unemployment (2.5% per year), contain inflation, reduce the country's trade surplus, and improve the quality of life through a shorter work week and stabilized property prices. Many these objectives were achieved or surpassed in the closing years of the decade. After 1992, however, the economy's downturn was likened by some analysts to the 1974 recession in its severity and length. Economic indicators included steep declines and sluggish recovery in the stock market index since 1989, falling real estate prices, as well as a shrunken rate of GNP growth, despite surging exports. To prompt a recovery, the Ministry of Finance approved large stimulus packages for 1992 and 1993, totaling \$85.6 billion and \$119 billion in expenditures, respectively. Under the Structural Impediments Initiative, the government sought to sustain growth while also reducing the country's external trade imbalances. Among the main steps taken under the Initiative was a 10-year program targeting the expenditure of up to \$8 trillion for the construction or renovation of airports, bridges, roads, ports, telecommunications systems, resorts, retirement communities, medical facilities, and other forms of public infrastructure development. Real growth during the 1990s hovered around 1% a year. The reasons for this are not as clear as in the 1970s when oil interruptions slowed the pace of development. Since Japanese wages have been rising, wage pressures are creating a higher cost for business, which would tend to make Japan less competitive in a world that is becoming increasingly more competitive. The Asian Tigers such as Singapore, Taiwan, or Hong Kong, have seen their economies grow at a much higher rate than Japan and China's economic growth rate of 10% a year during the 1990s. In 1999, Japan began a tentative recovery from its longest and most severe recession since the end of World War II.

Japan's financial assistance to developing countries and international agencies has grown significantly in recent years, making it one of the world's leading donor countries and its largest net creditor. The government has committed itself to large

increases in official development assistance to developing countries and multilateral agencies since the late 1980s. In 1991, ODA totaled \$11.0 billion, as compared with \$3,797 million in 1985. Private outflows in 1991 totaled \$11.1 billion, as compared with \$8,022 million in 1985. ODA projects in the construction sector totaled \$9 billion in 1997. Among the top recipients of bilateral ODA from Japan were Indonesia, China, the Philippines, Thailand, Bangladesh, and Malaysia. Japan's increasing financial assistance to developing countries like China and Indonesia is an indication that the Japanese government is willing to sacrifice short term gain for longer term prosperity and stability. In essence, Japan is helping to create viable trading partners; and since Japan is a trading state, this strategy will enhance Japan's economic development over the long term.

## 40 SOCIAL DEVELOPMENT

Living standards reflect Japan's rapid economic development since the mid-1960s. Greatly contributing to the social stability of the nation is the strong sense of family solidarity among the Japanese; virtually every home has its *butsudān*, or altar of the ancestors, and most elderly people are cared for in the homes of their grown children. A further source of social stability has been Japan's employment system, noted for its "lifetime employment" of workers from the time they enter the company after completing their education to the time they retire. Traditionally, layoffs and dismissals of employees were rare, even during times of recession. With Japan's economic downturn of the early 1990s, however, companies were forced to downsize. By 1997 the nation's unemployment rate had climbed to a record 3.5%, and a number of middle-aged workers who had expected to remain with the same firm until retirement found themselves job hunting.

The present social insurance system includes national health insurance, welfare annuity insurance, maternity coverage, unemployment insurance, workers' accident compensation insurance, seamen's insurance, a national government employees' mutual aid association, and day workers' health insurance. It also provides pension plans designed to maintain living standards for the elderly, based on years of employment, and for families of deceased workers. Per capita expenditure on social security programs remains low, however, in relation to expenditure in many other industrial nations. There is a family allowance for all residents with children under the age of three.

Nearly the entire population receives benefits in one form or another from the health insurance system. Health insurance is compulsory for those employed at enterprises with five or more workers, and premiums are shared equally by the insured and their employers. Those not covered at work are insured through the National Health Insurance program. Other sickness and health insurance is in force among farmers, fishermen, and their dependents. Unemployment coverage is obligatory for all enterprises regardless of size; workers' compensation must also be provided by employers.

The Daily Life Security Law laid the groundwork for an ever-growing livelihood assistance program. Out of this have come laws pertaining to child welfare, physically handicapped persons' welfare, social welfare service, welfare fund loans to mothers and children, aid to the war-wounded and ill, and aid to families of deceased soldiers. The system provides direct aid for livelihood; education; housing; medical, maternity, and occupational disability; and funerals. More than a thousand welfare offices throughout the nation are staffed by full-time, salaried welfare secretaries and assisted by voluntary help. Institutions have been established to care for the aged, those on relief, and those needing rehabilitation. Numerous private organizations assist government agencies.

In 1985, a two-tiered pension system was mandated by law. The first tier consists of “national pension insurance” paid to all residents at a flat rate; the second tier consists of employment or earnings-related coverage. There are special pension programs for public employees, private school teachers and employees, and employees of agricultural, forestry, and fishery cooperatives.

An increasing number of women pursue permanent careers, although very few have attained management positions. The Equal Employment Opportunity Law encourages employers to avoid discriminating against women, but does not establish penalties for noncompliance. Women also retain the responsibility of child care and household chores. Domestic abuse and other violence against women often goes unreported due to societal concerns about shame in the family. The government is taking some action in providing shelter facilities and passing laws to protect victims. There is also an increase in the molestation of women on the railways while commuting. Sexual harassment in the workplace is prevalent.

Discrimination against ethnic Koreans and other non-Japanese minorities also continues. A serious social problem facing children in Japan is the increasing incidence of “*ijime*” or severe bullying at school. Several children are known to have committed suicide as a result of bullying. The Office of Ombudsman for Children’s Rights is attempting to address this problem. Violence against teachers is also a growing problem.

Human rights are generally respected by the government, but there have been some reports of abuse of detainees and prisoners.

#### 41 HEALTH

The Ministry of Health and Welfare has become the central administrative agency responsible for maintaining and promoting public health, welfare, and sanitation. All hospitals and clinics are subject to government control with respect to their standards and spheres of responsibility. In 1990–97, there were 16 hospital beds and 1.8 doctors per 1,000 people. Every practitioner in the field of medicine or dentistry must receive a license from the Ministry of Health and Welfare. In addition, the ministry recognizes and authorizes certain quasi-medical practices, including massage, acupuncture, moxa-cautery, and judo-orthopedics, all based upon traditional Japanese health professions.

Expanded examination and treatment have brought about a dramatic decrease in the death rate from tuberculosis, the major cause of death in the 1940s. In 1999 there were 29 cases of tuberculosis per 100,000 people. At the same time, death rates from cancer and heart disease have risen considerably and now rank among the leading causes of death, trailing cerebrovascular diseases. In 1990, the number of cancer patients increased 60% (to 810,000) from 1985. Japanese medical researchers have been working on research for a new cure for breast cancer.

Infant mortality dropped to 4 per 1,000 live births in 1999, in contrast with the 1930 rate of 124. The overall mortality rate was estimated at 8.5 per 1,000 people in 2002. Only 3% of children under age five during 1989–95 were malnourished. The total fertility rate was 1.4 as of 2000. Immunization rates for children up to one year old in 1997 included diphtheria, pertussis, and tetanus, 100% and measles, 94%. Average life expectancy was 81 years in 2000, among the highest rates in the world. The likelihood of death by heart disease after 65 was 213 for a man and 264 for a woman per 1,000 people (1990–1993). In the mid-1990s there were nearly 300,000 deaths per year strictly from cardiovascular diseases.

As of 1999, the number of people living with HIV/AIDS was estimated at 10,000 and deaths from AIDS that year were estimated at 150. HIV prevalence was 0.02 per 100 adults.

A large portion of the male population smokes. Between 1986 and 1994, 66% of men and 14% of women smoked. In 1995, it was estimated that tobacco would cause 12% of all deaths (17% males and 5% females), numbers that are still increasing among

males and, on current smoking trends, will eventually also increase in females.

#### 42 HOUSING

A severe housing shortage plagued Japan after World War II. It is estimated that in 1947, two years after the war’s end, the housing deficit amounted to more than four million units. A construction program resulted in 9.7 million new units by the end of 1965. The following year, the government undertook a five-year plan for the construction of 7.6 million houses by mid-1971; the plan was designed to fulfill the goal of “one house for each family.”

Housing construction peaked at 1.9 million units in 1973; despite efforts to promote construction as a means of stimulating the domestic economy, construction lagged in later years, falling to between 1.1 million and 1.5 million units in the 1980s. The decline reflects not so much a saturation of demand—many Japanese regard their housing as inadequate—as a rapid rise in land and construction costs, especially in the Tokyo, Nagoya, and Osaka metropolitan areas, which has put new housing out of the reach of potential buyers.

In the mid-1990s, the average salaried worker in Tokyo could only afford a house 40 km outside the Tokyo metropolitan area. Condominiums and prefabricated homes provided much of the nation’s new housing in the 1980s. In fiscal 1987, low interest rates pushed new housing starts to 1.729 million units; they declined in 1988 to 1.6 million, and fell to 1.343 million in 1991 with the start of the recession. However, in 1998, there was a total of 50.25 million dwellings, representing 13% more than the number of households. About 61% of dwellings are owner occupied. Most dwellings are relatively small by international standards. In 1998, about 1.1 million rental properties had under 60 square meters of floor space.

#### 43 EDUCATION

Japan’s entire educational system was reorganized along US lines after World War II, adhering to a six-three-three-four plan (six years of primary school, three years of lower secondary school, three years of upper secondary school—full-time, part-time or correspondence—and four years of college). Education is compulsory and provided free of charge for the first nine years, from age 6 through 14. Coeducation has become an accepted principle. Virtually the entire adult population is literate. As of 1999, public expenditure on education was estimated at 3.5% of GDP.

Entrance into high schools, the stage following the compulsory level, is by examination only, and most of these schools charge tuition. Would-be national and local public university students must pass entrance examinations in Japanese, English, mathematics, science, and social studies. There are three types of institutions for higher education—universities, junior colleges and technical colleges, all of which receive prefectural and national support or annual subsidies. There are 95 national universities, with each prefectural capital having one school; the remainder are in the principal cities. The largest religious bodies, both Christian and Buddhist, maintain important universities and other educational institutions. There are many special schools for the handicapped.

Enrollment at both the compulsory elementary and secondary levels is very high—virtually 100%. Approximately 29.1% of students continued on to university level education in 1990.

In 1998, 7,855,387 students were enrolled in 24,376 elementary schools, with 420,901 teachers. In 1995, 9,878,568 students were enrolled in secondary schools, with 702,575 teachers. The pupil-teacher ratio at the primary level was 21 to 1 in 1999. In 1995, there were a total of 401,509 teaching faculty and 3,917,709 students enrolled in all higher educational institutions.

Educational activities for adults and youths are organized both by government and private bodies. There is a board of education in each of the 47 prefectures and 3,000 municipalities and these serve as the local education authority. The central education authority is the Ministry of Education, which provides guidance and financial assistance to the local bodies. In 1996, approximately 3.6% of the Gross Domestic Product was allocated to education.

#### 44 LIBRARIES AND MUSEUMS

In 1948, the National Diet Library Law established the National Diet Library to provide reference service to the Diet, other libraries, and the general public. In 1949, this library absorbed the Ueno Library (the former national library) as one of its branches. The National Diet Library acts as a legal depository for Japanese publications and is also a depository library for the UN. There are over 7.3 million volumes in the library's collection. The University of Tokyo (Tokyo Daigaku) has 7.6 million volumes, and Keio University, also in Tokyo has libraries with holdings of over one million volumes.

Public libraries are beginning to find their place in Japanese life. Prior to the enactment of the Library Law of 1950, 70% of those who utilized libraries were students and scholars. Today, libraries are information centers, and increasing numbers of citizens are patronizing them.

Except in large cities, typical Japanese museums take the form of the treasure halls of shrines or temples, botanical gardens, and aquariums. Important museums include the National Science Museum, Museum of Contemporary Art, Calligraphy Museum, and the Tokyo Metropolitan Art Museum, all located in Tokyo. Also in Tokyo are the Baseball Hall of Fame and Museum, a criminal museum, and a clock museum. In 2002 the Hyogo Prefectural Museum of Art opened in Kobe. Osaka houses a museum of natural history and the National Museum of Ethnography, and Kyoto, the former capital, has many historical sights and monuments. Yokohama is home to an equine museum and Kanazawa Bunko, a general museum dating back to 1275 and featuring Zen Buddhist documents.

#### 45 MEDIA

Telephone and telegraph services are offered by Nippon Telephone and Telegraph, which was privatized in 1986, and by Japan Telecom and other companies that entered the market after Nippon Telegraph and Telephone's monopoly ended in 1985. In 1997, Japan had 60.3 million mainline telephones. In 2000, there were an additional 63.8 million cellular phones in use nationwide. Telex, fax, and international telegram services are provided by Kokusai Denshin-Denwa (KDD).

A semigovernmental enterprise, the Japan Broadcasting Corp. (Nihon Hoso Kyokai—NHK), plays a large role in Japan's radio and television communications. Many commercial stations are connected with large newspaper companies. Started in 1935, Radio Japan is also beamed by NHK throughout the world. NHK initiated television broadcasting in 1953. As of 2001 there were 215 AM and 89 FM radio stations. In 1999, there were 211 television stations. Color television broadcasting began in 1960; multiplex broadcasting, for stereophonic or multiple-language programming, was made available in Tokyo and other metropolitan areas in 1978. In 2000, there were 956 radios and 725 television sets for every 1,000 people. With about 315 personal computers in use for every 1,000 people, Internet access was available from 73 service providers in 2000. By 2001, there were 47.08 million Internet subscribers.

The Japanese press is among the world's largest in terms of newspaper circulation and is also a leader in ratio of copies to population.

The leading Japanese dailies, with their 2002 circulations, are as follows:

CIRCULATION	MORNING	EVENING
TOKYO		
* <i>Yomiuri Shimbun</i>	10,224,70	4,183,130
* <i>Asahi Shimbun</i>	8,322,050	4,070,610
* <i>Mainichi Shimbun</i>	3,976,360	1,708,910
* <i>Nihon Keizai Shimbun</i>	1,796,310	959,730
* <i>Sankei Shimbun</i>	1,997,700	907,370
* <i>Tokyo Shimbun</i>	653,120	348,750
OSAKA		
<i>Hochi Shimbun</i>		438,420
<i>Osaka Nichi-Nichi Shimbun</i>		225,000
OTHER CITIES		
* <i>Chunichi Shimbun</i> (Nagoya)	3,075,320	1,247,820
<i>Nishi-Nippon Shimbun</i> (Fukuoka)	841,460	187,530
<i>Hokkaido Shimbun</i> (Sapporo)	677,550	387,520
<i>Kyoto Shimbun</i> (Kyoto)	504,600	319,730
<i>Kobe Shimbun</i> (Kobe)	546,080	269,640
<i>Chugoku Shimbun</i> (Hiroshima)	732,730	89,310

\*Indicates nationwide circulation figure.

There are two domestic news agencies: the Kyodo News Service, with 50 domestic bureaus and with foreign bureaus in every major overseas news center; and the Jiji Press, serving commercial and government circles.

The constitution of Japan provides for free speech and a free press, and the government is said to respect these rights in practice. The Japanese press enjoys the reputation of having the most vigorous and outspoken in the world. It operates under the constitutional provision of absolute prohibition of censorship.

#### 46 ORGANIZATIONS

There are an enormous number of organizations in Japan, including such standard bodies as the Japan Red Cross, Japan Chamber of Commerce (with regional and local branches), General Council of Trade Unions, Congress of Labor Unions, Federation of Employers Associations, Rotary Club, Japan Medical Association, Japan Actors' Society, Motion Picture Association of Japan, Japan Athletic Federation, All-Japan Boy Scouts League and Girl Scouts League, Japan YMCA and YWCA, and Japan Youth Association.

The Institute of Art Research and the National Institute of Japanese Literature are important in the cultural field. The Society for International Cultural Relations, established in 1934, is active in the publishing field and in cultural exchange. There are associations and societies representing promoting research and advancement in nearly all major fields of science and medicine. Trade unions and professional associations are very active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism in Japan is regarded as a major industry, since many foreign visitors as well as the Japanese themselves tour the country extensively. In 2000, Japan had an estimated 4.7 million foreign visitors. Tourist expenditures for that year totaled approximately US\$3.3 billion. Japan's estimated 1,580,226 hotel rooms had a 69% rate of occupancy in 2000.

Japan's chief sightseeing attractions are in the ancient former capital of Kyoto: Nijo Castle, Heian Shrine, the 13th-century Sanjusangendo temple and the Kinkaku-ji (Temple of the Golden Pavilion), the Ryoan-ji (Temple of the Peaceful Dragon), famed for its garden of stones and raked sand, and numerous other ancient Buddhist temples and Shinto shrines. Nearby sights in the vicinity of Nara include the Great Buddha, a huge bronze statue originally cast in the eighth century; the Kofuku-ji pagoda; and Horyu-ji, the seventh century temple from which Buddhism spread throughout Japan. There are few historic sites in the capital—Tokyo was devastated by an earthquake in 1923 and virtually destroyed in World War II—but nearby attractions include Mt. Fuji and the hot springs of Fuji-Hakkone-Izu

National Park; Nikko National Park, site of the Toshogu Shrine, where the first Tokugawa shogun is entombed; and the summer and winter sports facilities in the mountains of central Japan—the so-called Japan Alps. The Hiroshima Peace Park and Peace Memorial Museum commemorate the destruction of the city by an atomic bomb in 1945.

Baseball is Japan's national pastime; there are two professional leagues, each with six teams. Sumo, a Japanese form of wrestling, is also popular, with tournaments held six times a year. Golf, an expensive sport because of the lack of open space, is used mainly as a means of entertaining business clients. Other pastimes include judo, karate, table tennis, fishing, and volleyball. Gardening is the most popular hobby among men and women alike.

The costs of traveling in Japan, among the highest in the world, were reduced slightly when a 3% tourism tax, in effect since 1960, was abolished on 1 April 2000. According to 2002 US Department of State estimates, daily expenses in Tokyo were approximately \$289 per day. Daily expenses were about \$225 in Okinawa, \$177 in Kanazawa, and \$278 in Osaka-Kobe.

#### 48 FAMOUS JAPANESE

Murasaki Shikibu (late 10th–early 11th cent.) was the author of *The Tale of Genji*, probably the best-known Japanese literary classic in English since it was first translated in the 1920s. Zeami (Motokiyo, 1363–1443) was an actor who established Noh theater and wrote a number of plays that have been part of the Noh repertoire ever since. Monzaemon Chikamatsu (1653–1724) wrote plays for the Bunraku theater, many of which later became part of the repertoire of Kabuki. Basho (Matsuo Munefusa, 1644–94) perfected the writing of the poetic form now known as haiku. In this genre, three other poets are also known: Buson Yosa (1716–83), Issa Kobayashi (1763–1827), and the modern reformer Shiki Masaoka (1867–1902). Ryunosuke Akutagawa (1892–1927) is best known for his story “Rashomon.” Prominent modern novelists include Jun'ichiro Tanizaki (1886–1965); Yasunari Kawabata (1899–1972), winner of the 1968 Nobel Prize for literature; Kobo Abe (1924–93); and Yukio Mishima (1925–70). A leading modern writer and Zen Buddhist scholar was Daisetz Teitaro Suzuki (1870–1966).

In art, Sesshu (1420–1506) was the most famous landscape artist of his day. Ogata Korin (1658–1716) was a master painter of plants, animals, and people. The leader of the naturalist school was Maruyama Okyo (1733–95). The best-known painters and wood-block artists of the “*ukiyo-e*” style were Kitagawa Utamaro (1754–1806), Katsushika Hokusai (1760–1849), Saito Sharaku (fl.1794–95), and Ando Hiroshige (1797–1858). Four 20th-century Japanese architects whose work has had a marked influence on international style are Mayekawa Kunio (1905–86), Hideo Kosaka (b.1912), Kenzo Tange (b.1913), and Yoshinobu Aihara (b.1918).

Noted Japanese film directors include Kenji Mizoguchi (1898–1956), Yasujiro Ozu (1903–63), and Akira Kurosawa (1910–92). Toshiro Mifune (b.1920) is the best-known film star abroad. Contemporary composers include Toshiro Mayuzumi (b.1929) and Toru Takemitsu (1930–96). Seiji Ozawa (b.1935) is a conductor of world renown. The leading home-run hitter in baseball history is Sadaharu Oh (b.1940), manager of the Yomiuri Giants, who retired as a player for the same team in 1980 after hitting 868 home runs.

Hideyo Noguchi (1876–1928), noted bacteriologist, is credited with the discovery of the cause of yellow fever and is famed for his studies on viruses, snake poisons, and toxins. Hideki Yukawa (1907–81), Japan's most noted physicist, received the 1949 Nobel Prize for research on the meson. In 1965, Shinichiro Tomonaga (1906–79), a professor at Tokyo University of Education, became one of the year's three recipients of the Nobel Prize for physics for work in the field of quantum electrodynamics. Leon Esaki

(b.1925) won the Nobel Prize for physics in 1973; Kenichi Fukui (1918–1998) shared the 1981 chemistry award; and Susumu Tonegawa (b.1939) won the 1987 medicine award.

Hirohito (1901–89) became emperor of Japan in 1926. His eldest son, Akihito (b.1933), succeeded him in 1990. The leading statesman after World War II was Eisaku Sato (1901–75), prime minister from 1964 to 1972 and winner of the Nobel Peace Prize in 1974.

#### 49 DEPENDENCIES

Japan has no territories or colonies.

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# JORDAN

## The Hashemite Kingdom of Jordan

### *Al-Mamlaka al-Urdunniyya al-Hashimiyya*

**CAPITAL:** ‘Amman

**FLAG:** The national flag is a tricolor of black, white, and green horizontal stripes with a seven-pointed white star on a red triangle at the hoist.

**ANTHEM:** *As-Salam al-Maliki (Long Live the King)*.

**MONETARY UNIT:** The Jordanian dinar (JD) is a paper currency of 1,000 fils. There are coins of 1, 5, 10, 20, 25, 50, 100, and 250 fils and notes of ½, 1, 5, 10, and 20 dinars. JD1 = \$1.412 (or \$1 = JD0.708) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local and Syrian units are still widely used, especially in the villages.

**HOLIDAYS:** Arbor Day, 15 January; Independence Day, 25 May; Accession of King Hussein, 11 August; King Hussein’s Birthday, 14 November. Muslim religious holidays include the 1st of Muharram (Islamic New Year), ‘Id al-Fitr, ‘Id al-‘Adha’, and Milad an-Nabi. Christmas and Easter are observed by sizable Christian minorities.

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

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

Situated in southwest Asia, Jordan has an area of 92,300 sq km (35,637 sq mi). Jordan extends 562 km (349 mi) NE–SW and 349 km (217 mi) SE–NW. Comparatively, the area occupied by Jordan is slightly smaller than the state of Indiana. It is bounded on the N by Syria, on the NE by Iraq, on the E and S by Sa‘udi Arabia, on the SW by the Gulf of Aqaba, and on the W by Israel, with a total land boundary length of 1,635 km (1,016 mi) and a coastline of 26 km (16 mi).

Jordan’s capital city, ‘Amman, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The Jordan Valley has a maximum depression of 392 m (1,286 ft) below sea level at the Dead Sea; south of the Dead Sea the depression, called Wadi‘Araba, slowly rises to reach sea level about halfway to the Gulf of Aqaba. To the east of the Jordan River, the Transjordanian plateaus have an average altitude of 910 m (3,000 ft), with hills rising to more than 1,650 m (5,400 ft) in the south. Farther eastward, the highlands slope down gently toward the desert, which constitutes 88% of the East Bank. The Jordan River enters the country from Israel to the north and flows into the Dead Sea; its main tributary is the Yarmuk, which near its juncture forms the border between Jordan and Syria. The Dead Sea is the lowest point on the earth’s surface, at 408 m (1,339 ft) below the level of the Mediterranean. The Dead Sea has a mineral content of about 30%.

## <sup>3</sup>CLIMATE

The Jordan Valley has little rainfall, intense summer heat, and mild, pleasant winters. The hill country of the East Bank—ancient Moab, Edom, and Gilead—has a modified Mediterranean climate, with less rainfall and hot, dry summers. The desert regions are subject to great extremes of temperature and receive rainfall of less than 20 cm (8 in) annually, while the rest of the country has an average rainfall of up to 58 cm (23 in) a year.

Temperatures at ‘Amman range from about 4°C (39°F) in winter to more than 32°C (90°F) in summer.

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

Plants and animals are those common to the eastern Mediterranean and the Syrian Desert. The vegetation ranges from semitropical flora in the Jordan Valley and other regions to shrubs and drought-resistant bushes in the desert. Less than 1% of the land is forested. The wild fauna includes the jackal, hyena, fox, wildcat, gazelle, ibex, antelope, and rabbit; the vulture, sand grouse, skylark, partridge, quail, woodcock, and goldfinch; and the viper, diced water snake, and Syrian black snake.

## <sup>5</sup>ENVIRONMENT

Jordan’s principal environmental problems are insufficient water resources, soil erosion caused by overgrazing of goats and sheep, and deforestation. Water pollution is an important issue in Jordan. Jordan has 0.7 cubic km of renewable water resources with 75% used for farming activity and 3% used for industrial purposes. One-hundred percent of all city dwellers and 84% of rural people have pure water. It is expected that the rate of population growth will place more demands on an already inadequate water supply. Current sources of pollution are sewage, herbicides, and pesticides. Jordan’s cities produce an average of 1.2 million tons of solid waste per year.

Jordan’s wildlife was reduced drastically by livestock overgrazing and uncontrolled hunting between 1930 and 1960; larger wild animals, such as the Arabian oryx, onager, and Asiatic lion, have completely disappeared. Under a law of 1973, the government has prohibited unlicensed hunting of birds or wild animals and unlicensed sport fishing, as well as the cutting of trees, shrubs, and plants. As of 2001, 3.3% of Jordan’s total land area is protected. In the same year, seven of Jordan’s mammal species and four bird species were listed as endangered. Four plant species were also endangered. Endangered species in Jordan include the South Arabian leopard and the goitered gazelle.

## 6 POPULATION

The population of Jordan in 2003 was estimated by the United Nations at 5,473,000, which placed it as number 104 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 40% 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 2.66%, with the projected population for the year 2015 at 6,982,000. The population density in 2002 was 60 per sq km (155 per sq mi). Population density is highest in the northern Jordan River Valley.

It was estimated by the Population Reference Bureau that 74% of the population lived in urban areas in 2001. The capital and largest city, 'Amman, had a population of 1,378,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 3.5%. A portion of the population is nomadic.

## 7 MIGRATION

In 2000 there were 1,945,000 migrants living in Jordan, accounting for approximately 40% of the total population. Of those migrants, 83%, or about 1,610,100 were refugees. The net migration rate for that year was -0.7 migrants per thousand population. Worker remittances amounted to \$1,664,000, or approximately 22.5% of GDP. The government views the immigration level as too high, and the emigration level as too low.

## 8 ETHNIC GROUPS

Ethnically, the Jordanians represent a mixed stock. Most of the population is Arab (approximately 98% in 2002), but, except for the Bedouin nomads and seminomads of the desert and steppe areas, this element is overlain by the numerous peoples that have been present in Jordan for millennia, including Greek, Egyptian, Persian, European, and Negroid strains. The Palestinian Arabs now resident in Jordan tend to be sedentary and urban. Perhaps 1% of the population is Armenian, and another 1% is Circassian. There are also small Kurd, Druze, and Chechen minorities.

## 9 LANGUAGES

Arabic is the official language of the country and is spoken even by the ethnic minorities who maintain their own languages in their everyday lives. The spoken Arabic of the country is essentially a vernacular of literary Arabic; it is common to neighboring countries as well but is quite different from the spoken language in Egypt. There also are differences between the languages of the towns and of the countryside, and between those of the East and West banks. English is widely understood by the upper and middle classes.

## 10 RELIGIONS

Islam is the state religion, although all are guaranteed religious freedom. Most Jordanians (about 95%) are Sunni Muslims. Of the racial minorities, the Turkomans and Circassians are Sunni Muslims, but the Druzes are a heterodox Muslim sect. Christians constitute about 4% of the population and live mainly in 'Amman or the Jordan Valley; most are Greek Orthodox or Roman Catholic. Other officially recognized denominations include Melkite, Armenian Orthodox, Maronite, Assyrian, Anglican, Lutheran, Seventh-Day Adventist, United Pentecostal, Presbyterian, Baptist, Free Evangelical, Nazarene, and Assembly of God. The Baha'is are mainly of Persian stock. A tiny community of Samaritans maintains the faith of its ancestors, a heterodox form of the ancient Jewish religion. There are numerous missionary groups within the country.

## 11 TRANSPORTATION

Jordan's transportation facilities are underdeveloped, but improvements have been made in recent years. The third development plan (1986–90) allotted JD445 million for transportation. A good road network links the principal towns and connects with Syria, Iraq, and Sa'udi Arabia. In 2002 all of Jordan's estimated 8,000 km (4,971 mi) of road was paved. Passenger automobiles numbered 107,500; trucks, buses, and other commercial vehicles totaled 91,800 in 2000.

The rail system, some 677 km (421 mi) of narrow-gauge single track, is a section of the old Hijaz railway (Damascus to Medina) for Muslim pilgrims. It runs from the Syrian border through 'Amman to Ma'an, where it connects with a spur line to the port of Al-'Aqabah. Reconstruction of the section from Ma'an to Medina in Sa'udi Arabia, which had been destroyed in World War I, was undertaken in the early 1970s as a joint venture by Jordan, Sa'udi Arabia, and Syria.

Al-'Aqabah, Jordan's only outlet to the sea, is situated at the head of the Gulf of Aqaba, an arm of the Red Sea. The port was initially developed after the 1948 Arab-Israeli war, which cut off Arab Palestine and Transjordan from Mediterranean ports; substantial development did not begin until the 1960s. The port has been enlarged for general use, including terminals for loading potash and fertilizers. In 2002 Jordan had 7 merchant ships, totaling 41,206 GRT.

Jordan had 18 airports in 2001, 15 of which were paved. The major airport is the Queen Alia International Airport, about 30 km (19 mi) south of 'Amman, which was opened in the early 1980s. Aqaba Airport is the other international airport. The government-owned Alia-Royal Jordanian Airline operates domestic and international flights. In 2001, 1,178,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

As part of the Fertile Crescent connecting Africa and Asia, the area now known as Jordan has long been a major transit zone and often an object of contention among rival powers. It has a relatively well known prehistory and history. Neolithic remains from about 7000 BC have been found in Jericho, the oldest known city in the world. City-states were well developed in the Bronze Age (c.3200–2100 BC). In the 16th century BC, the Egyptians first conquered Palestine, and in the 13th century BC, Semitic-speaking peoples established kingdoms on both banks of the Jordan. In the 10th century BC, the western part of the area of Jordan (on both banks of the Jordan River) formed part of the domain of the Hebrew kings David and Solomon, while subsequently the West Bank became part of the Kingdom of Judah. A succession of outside conquerors held sway in the area until, in the 4th century BC, Palestine and Syria were conquered by Alexander the Great, beginning about 1,000 years of intermittent European rule. After the death of Alexander, the whole area was disputed among the Seleucids of Syria, the Ptolemies of Egypt, and native dynasties, such as the Hasmoneans (Maccabees); in the 1st century BC, it came under the domination of Rome. In Hellenistic and Roman times, a flourishing civilization developed on the East Bank; meanwhile, in southern Jordan, the Nabataean kingdom, a native Arab state in alliance with Rome, developed a distinctive culture, blending Arab and Greco-Roman elements, and built its capital at Petra, a city whose structures hewn from red sandstone cliffs survive today. With the annexation of Nabataea by Trajan in the 2d century AD, Palestine and areas east of the Jordan came under direct Roman rule. Christianity spread rapidly in Jordan and for 300 years was the dominant religion.

The Byzantine phase of Jordan's history, from the establishment of Constantinople as the capital of the empire to the Arab conquest, was one of gradual decline. When the Muslim



LOCATION: (1949): 29°17' to 33°20' N; 34°53' to 39°12' E. BOUNDARY LENGTHS: Syria, 375 kilometers (233 miles); Iraq, 181 kilometers (112 miles); Sa'udi Arabia, 728 kilometers (452 miles); Gulf of Aqaba, 26 kilometers (16 miles); Israel, 238 kilometers (148 miles); West Bank, 97 kilometers (60 miles). TERRITORIAL SEA LIMIT: 3 miles.

invaders appeared, little resistance was offered, and in 636, Arab rule was firmly established. Soon thereafter, the area became thoroughly Arabized and Islamized, remaining so to this day despite a century-long domination by the Crusaders (12th century). Under the Ottoman Turks (1517–1917), the lands east of the Jordan were part of the Damascus vilayet (an administrative division of the empire), while the West Bank formed part of the sanjak (a further subdivision) of Jerusalem within the vilayet of Beirut.

During World War I, Sharif Hussein ibn-'Ali (Husayn bin 'Ali), the Hashemite (or Hashimite) ruler of Mecca and the Hijaz, aided and incited by the UK (which somewhat hazily promised him an independent Arab state), touched off an Arab revolt against the

Turks. After the defeat of the Turks, Palestine and Transjordan were placed under British mandate; in 1921, Hussein's son 'Abdallah was installed by the British as emir of Transjordan. In 1923, the independence of Transjordan was proclaimed under British supervision, which was partially relaxed by a 1928 treaty, and in 1939, a local cabinet government (Council of Ministers) was formed. In 1946, Transjordan attained full independence, and on 25 May, 'Abdallah was proclaimed king of the Hashemite Kingdom of Transjordan. After the Arab-Israeli War of 1948, King 'Abdallah annexed a butterfly shaped area of Palestine bordering the Jordan (thereafter called the West Bank), which was controlled by his army and which he contended was included in the area that had been promised to Sharif Hussein. On 24

April 1950, after general elections had been held in the East and West banks, an act of union joined Jordanian-occupied Palestine and the Kingdom of Transjordan to form the Hashemite Kingdom of Jordan. This action was condemned by some Arab states as evidence of inordinate Hashemite ambitions. Meanwhile, Jordan, since the 1948 war, had absorbed about 500,000 of some 1,000,000 Palestinian Arab refugees, mostly sheltered in UN-administered camps, and another 500,000 nonrefugee Palestinians. Despite what was now a Palestinian majority, power remained with the Jordanian elite loyal to the throne. On 20 July 1951, 'Abdallah was assassinated in Jerusalem by a Palestinian Arab, and his eldest son, Talal, was proclaimed king. Because of mental illness, however, King Talal was declared unfit to rule, and succession passed to his son Hussein I (Husayn ibn-Talal), who, after a brief period of regency until he reached 18 years of age, was formally enthroned on 2 May 1953.

Between the accession of King Hussein and the war with Israel in 1967, Jordan was beset not only with problems of economic development, internal security, and Arab-Israeli tensions but also with difficulties stemming from its relations with the Western powers and the Arab world. Following the overthrow of Egypt's King Faruk in July 1952, the Arab countries were strongly influenced by "Arab socialism" and aspirations to Arab unity (both for its own sake and as a precondition for defeating Israel). Early in Hussein's reign, extreme nationalists stepped up their attempts to weaken the regime and its ties with the UK. Notwithstanding the opposition of most Arabs, including many Jordanians, Jordan maintained a close association with the UK in an effort to preserve the kingdom as a separate, sovereign entity. However, the invasion of Egypt by Israel in October 1956, and the subsequent Anglo-French intervention at Suez, made it politically impossible to maintain cordial relations with the UK. Negotiations were begun to end the treaty with Britain, and thus the large military subsidies for which it provided; the end of the treaty also meant the end of British bases and of British troops in Jordan. The Jordanian army remained loyal, and the king's position was bolstered when the United States and Sa'udi Arabia indicated their intention to preserve Jordan against any attempt by Syria to occupy the country. After the formation of the United Arab Republic by Egypt and Syria and the assassination of his cousin, King Faisal II (Faysal) of Iraq, in a July 1958 coup, Hussein turned again to the West for support, and British troops were flown to Jordan from Cyprus.

When the crisis was over, a period of relative calm ensued. Hussein, while retaining Jordan's Western ties, gradually steadied his relations with other Arab states (except Syria), established relations with the USSR, and initiated several important economic development measures. But even in years of comparative peace, relations with Israel remained the focus of Jordanian and Arab attention. Terrorist raids launched from within Jordan drew strong Israeli reprisals, and the activities of the Palestine Liberation Organization (PLO) often impinged on Jordanian sovereignty, leading Hussein in July 1966, and again in early 1967, to suspend support for the PLO, thus drawing Arab enmity upon himself. On 5 June 1967, an outbreak of hostilities occurred between Israel and the combined forces of Jordan, Syria, and Egypt. These hostilities lasted only six days, during which Israel occupied the Golan Heights in Syria, Egypt's Sinai Peninsula, and the Jordanian West Bank, including all of Jerusalem. Jordan suffered heavy casualties, and a large-scale exodus of Palestinians (over 300,000) across the Jordan River to the East Bank swelled Jordan's refugee population (700,000 in 1966), adding to the war's severe economic disruption.

After Hussein's acceptance of a cease-fire with Israel in August 1970, he tried to suppress various Palestinian guerrilla organizations whose operations had brought retaliation upon Jordan. The imposition of military rule in September led to a 10-

day civil war between the army and the Palestinian forces (supported briefly by Syria which was blocked by Israel), ended by the mediation of other Arab governments. Subsequently, however, Hussein launched an offensive against Palestinian guerrillas in Jordan, driving them out in July 1971. In the following September, Premier Wasfi al-Tal was assassinated by guerrilla commandos, and coup attempts, in which Libya was said to have been involved, were thwarted in November 1972 and February 1973.

Jordan did not open a third front against Israel in the October 1973 war but sent an armored brigade of about 2,500 men to assist Syria. After the war, relations between Jordan and Syria improved. Hussein reluctantly endorsed the resolution passed by Arab nations on 28 October 1974 in Rabat, Morocco, recognizing the PLO as "sole legitimate representative of the Palestinian people on any liberated Palestinian territory," including, implicitly, the Israeli-held West Bank. After the Egyptian-Israeli Peace Treaty of 1979, Jordan joined other Arab states in trying to isolate Egypt diplomatically, and Hussein refused to join further Egyptian-Israeli talks on the future of the West Bank.

After the Israeli invasion of Lebanon in 1982 and the resulting expulsion of Palestinian guerrillas, Jordan began to coordinate peace initiatives with the PLO. These efforts culminated in a February 1985 accord between Jordan and the PLO, in which both parties agreed to work together toward "a peaceful and just settlement to the Palestinian question." In February 1986, however, Hussein announced that Jordan was unable to continue to coordinate politically with the PLO, which scrapped the agreement in April 1987. The following year the King renounced Jordan's claim to the West Bank and subsequently patched up relations with the PLO, Syria, and Egypt. In 1990, owing largely to popular support for Saddam Hussein, Jordan was critical of coalition efforts to use force to expel Iraqi forces from Kuwait. Relations with the United States and the Gulf states were impaired; Jordan lost its subsidies from the latter while having to support hundreds of thousands of refugees from the war and the aftermath. Jordan's willingness to participate in peace talks with Israel in late 1991 helped repair relations with Western countries. In June 1994, Jordan and Israel began meetings to work out practical steps on water, borders, and energy which would lead to normal relations. And, later that year, Jordan and Israel signed a peace treaty, ending the state of war that had existed between the two neighbors for decades. Relations with the major players in the Gulf War also improved in the years after the war. In 1996, Jordan and Sa'udi Arabia, the UAE and Kuwait were well on the way toward establishing normal relations.

Internally in the 1980s, Hussein followed policies of gradual political liberalization which were given new impetus by serious rioting over high prices in 1989. In that year, for the first time since 1956, Jordan held relatively free parliamentary elections in which Islamists gained more than one-third of the 80 seats. Martial law was ended in 1991 and new parliamentary elections were held in 1993. The King's supporters won 54 seats with the Moslem Brotherhood and its allies taking 18 places, the largest bloc of any party. However, the 1997 elections were boycotted by a number of opposition groups, who complained of unfair election laws, and the new upper house of parliament appointed by King Hussein did not include any members of Islamist groups.

In 1998 Hussein underwent treatment for cancer in the United States and delegated some of his powers to his brother, crown prince Hassan, who was next in the line of succession to the throne. The following winter, however, Hussein named his son Abdallah heir apparent. On 8 February 1999 King Hussein died, ending a 46-year reign; his funeral was attended by dignitaries from countries throughout the world. King Abdallah II pledged his support for the Middle East peace process, a more open government, and economic reforms requested by the IMF.

However, there was widespread uncertainty about how the untested 37-year-old heir would meet the challenges thrust upon him.

His first year in power reassured many observers, both at home and abroad. Domestically, he pushed through a series of trade bills that helped pave the way of the country's admission to the WTO, which came in April 2000, and declared his intention of implementing wide-ranging administrative and educational reforms. On the international front, Abdallah played a role in the resumption of talks between Israel and Syria and also took a firm stance against the presence of Islamic extremists in his own country, driving the radical Hamas organization out of Jordan.

Abdallah dissolved parliament in June 2001, elections were postponed twice, and were due to be held in June 2003. Islamists were expected to dominate the elections and lead the opposition in parliament. They oppose Jordan's 1994 peace treaty with Israel.

After the al-Aqsa intifada began in Israel and the West Bank and Gaza in September 2000, violence between Israel and the Palestinians increased dramatically. In the spring of 2002, Israel mounted its largest military operation in 20 years, and suicide bombings against Israelis carried out by radical Palestinian organizations were frequent. King Abdallah announced that his country backed any international initiative directed towards putting an end to the violence and to the Israeli occupation of Arab territories, and to the establishment of an independent Palestinian state.

Following the 11 September 2001 terrorist attacks on the United States, Jordan enacted a series of temporary laws imposing sharp restrictions on the right to public assembly and protest. A law broadened the definition of "terrorism," and allowed for the freezing of suspects' bank accounts. The number of offenses carrying the death penalty were increased, and journalists who publish articles which the government deems harmful to national unity or to be incitement to protests will be subject to three years' imprisonment.

As of late 2002, Jordan opposed the use of military force against Iraq to compel it to comply with UN resolutions ordering it to disarm. Jordan urged Iraq to voluntarily disarm and comply with UN weapons inspectors.

### 13 GOVERNMENT

Jordan is a constitutional monarchy based on the constitution of 8 January 1952. The king has wide powers over all branches of government. The constitution vests legislative power in the bicameral national assembly, composed of a 40-member senate and a 104-member lower house, and a chamber of deputies (a law enacted in July 2001 increased the size of the lower house from 80 seats to 104). Senators are appointed by the king for renewable eight-year terms; the chamber of deputies is elected by secret ballot for a four-year term, but the king may dissolve the chamber and order new elections. There is universal suffrage at age 18, women having received the right to vote in April 1973; general elections were held in 1989, 1993, and 1997. In February 1999, King Abdallah II succeeded to the throne following the death of his father, King Hussein.

The national assembly is convened and may be prorogued by the king, who also has veto power over legislation. The executive power of the king is administered by a cabinet, or council of ministers. The king appoints the prime minister, who then selects the other ministers, subject to royal approval. The ministers need not be members of the chamber of deputies. In the prolonged emergency created by the wars with Israel and by internal disorders, especially since 1968, King Hussein exercised nearly absolute power. The national assembly, adjourned by the king in 1974, met briefly in 1976 to amend the constitution; parliamentary elections were postponed indefinitely because of the West Bank situation, and the Assembly was then dissolved. In

1978, King Hussein established a national consultative council of 60 appointed members. The national assembly was reconvened in 1984, as King Hussein sought to strengthen his hand in future maneuvering on the Palestinian problem. Political parties were legalized in 1992. The freely elected parliaments of 1989 and 1993 have played an increasingly active and independent role in governance, with open debate and criticism of government personalities and policies. However, new press restrictions were imposed by 1997, and a majority of opposition groups boycotted the elections that year. King Abdallah dissolved parliament in June 2001 and postponed elections until summer 2002; they were once again postponed and scheduled for spring 2003.

### 14 POLITICAL PARTIES

Political parties were abolished on 25 April 1957, following an alleged attempted coup by pan-Arab militants. In the elections of 1962, 1963, and 1967, candidates qualified in a screening procedure by the Interior Ministry ran for office, in effect, as independents. The Jordanian National Union, formed in September 1971 as the official political organization of Jordan and renamed the Arab National Union in March 1972, became inactive by the mid-1970s. In 1990, the election law was amended to ban bloc voting or by party lists, substituting instead a "one person, one vote" system. In 1992, political parties were again permitted and 22 were authorized to take part in elections. The principal opposition group has been the Islamic Action Front, the political arm of the Muslim Brotherhood.

In the parliamentary elections of 8 November 1993, 22 political parties fielded candidates, representing a wide range of political views. Seats were widely dispersed among a range of largely centrist parties supportive of King Hussein's IMF-modeled reforms and his pro-Western stance. The largest bloc of seats, however, was won by the Islamic Action Front, an arm of the Muslim Brotherhood. In 1997, nine pro-government parties, hoping to gain leverage against the large Islamist bloc in upcoming elections, banded together to form the National Constitutional Party. However, the grouping won only a total of three seats, and the Islamic opposition boycotted the elections altogether. Only six parties fielded candidates. Independent pro-government candidates representing local tribal interests won 62 out of the 80 contested seats; 10 seats were won by nationalist and leftist candidates; and 8 by independent Islamists.

### 15 LOCAL GOVERNMENT

Eastern Jordan is divided into 12 governorates—Ajlun, Aqabah, 'Amman, Irbid, Balga, Jarash, Karak, Ma'an, Madaba, Zarqa', Mafraq, and Tafilah—each under a governor appointed by the king on the recommendation of the interior minister. The towns and larger villages are administered by elected municipal councils; mayors and council presidents are appointed by the council of ministers. Smaller villages are headed by a headman (*mukhtar*), who in most cases is elected informally.

### 16 JUDICIAL SYSTEM

There are six jurisdictions in the judiciary: four levels of civil and criminal jurisdiction, religious jurisdiction, and tribal courts. The new civil code of 1977 regulates civil legal procedures. The supreme court, acting as a court of cassation, deals with appeals from lower courts. In some instances, as in actions against the government, it sits as a high court of justice. The courts of appeal hear appeals from all lower courts. Courts of first instance hear major civil and criminal cases. Magistrates' courts deal with cases not coming within the jurisdiction of courts of first instance. Religious courts have jurisdiction in matters concerning personal status (marriage, divorce, wills and testaments, orphans, etc.), where the laws of the different religious sects vary. The Shari'ah courts deal with the Muslim community, following the procedure laid down by the Ottoman Law of 1913. The Council of

Religious Communities has jurisdiction over analogous cases among non-Muslims. Tribal courts, which have jurisdiction in most matters concerning tribe members, are losing their importance as more people take their cases to the government courts instead.

In 1991, the state security court, which hears security cases in panels of at least three judges, replaced the martial law court. Under 1993 amendments to the state security court law, all security court decisions may be appealed to the court of cassation on issues of law and weight of evidence. Prior to 1993, the court of cassation reviewed only cases involving death or imprisonment for over 10 years, and review was limited to errors of law.

Although the judiciary is independent, it is subject to political pressure and interference by the executive branch. The constitution prohibits arbitrary interference with privacy, family, and home. Police must obtain a judicial warrant before conducting searches.

## 17 ARMED FORCES

In 2002, the Jordanian armed forces had 100,240 active personnel with reserves numbering 35,000. The army numbered 84,700 supplied with 1,179 main battle tanks. The air force had 15,000 personnel with 101 combat aircraft and 22 armed helicopters. The navy had 540 men and 3 patrol craft. Paramilitary consisted of the Public Security Directorate with 10,000 members. Defense expenditures for 2001 were \$757.5 million or 8.6% of GDP. Jordan had peacekeepers stationed in seven regions around the world.

## 18 INTERNATIONAL COOPERATION

Jordan became a member of the UN on 14 December 1955 and belongs to ESCWA and all the nonregional specialized agencies. It is one of the founding members of the Arab League and also participates in G-77. Jordan has greatly benefited from the work of UNICEF and of UNRWA, which helps the Palestinian refugees. Jordan does not adhere to the Law of the Sea. In 1995 Jordan announced its intention to join the WTO; its accession came on 11 April 2000. Jordan and Israel signed a peace treaty in 1994 and exchanged ambassadors the following year.

## 19 ECONOMY

Jordan's economy has been profoundly affected by the Arab-Israeli conflict. The incorporation of the West Bank after the war of 1948 and the first exodus of Palestinians from the territory that became Israel tripled the population, causing grave economic and social problems. The loss of the West Bank in 1967 resulted not only in a second exodus of Palestinians but also in the loss of most of Jordan's richest agricultural land and a decline in the growing tourist industry. The 1970–71 civil war and the October 1973 war also brought setbacks to development plans. The steady influence has been foreign funds. An estimated 80% of annual national income in the early 1980s came from direct grants from and exports to oil-rich Arab countries and from remittances by Jordanians working there. Also important to the economy has been Western economic aid, notably from the US, the UK, and Germany. The economy expanded rapidly during 1975–80, growing in real terms by an average of 9% a year, but the growth rate slowed to 5% in 1985, primarily from reductions in aid from other Arab states because of their declining oil receipts. The onset of the recession in Jordan in the mid-1980s followed by the economic collapse of 1988–89 and the Gulf conflict in 1990 left the country with an unemployment rate of approximately 30–35%, high inflation, and about 25–30% of the population living below the poverty line.

When in 1989 Jordan was unable to service its external debt due to 100 repayment commitments, the Jordanian government concluded an agreement with the IMF to pursue a series of economic reforms across a five year period (that is, by 1993) in

exchange for bridge finance: the budget deficit was to be reduced from 24% of GDP to 10% of GDP; the current account balance was to improve from a deficit equivalent to 6% of GDP to a balanced position; export earnings were to grow from \$1.1 billion in 1989 to \$1.7 in 1993; and the rate of inflation was to drop from 14% in 1989 to 7% in 1993. The Gulf War interrupted this program, as the Jordanian government came out on the side of Iraq, and presumably in favor of a completely different way of solving its economic vulnerability; that is, through association with an enlarged and empowered Arab state. The international economic embargo against Iraq during the Gulf War meant that Jordan lost a lucrative export and re-export market. The loss of Iraq's oil supplies resulted in Jordan having to pay the market price for oil imports from Syria and Yemen. The balance of annual aid transfers, some \$200 billion, promised by the Arab oil states in 1990, failed to take into consideration the influx of some 230,000 Jordanian nationals from Kuwait that resulted from the Iraqi invasion. They imposed a strain on government services, and added to the pool of unemployment.

In 1994 Jordan entered into another three-year structural adjustment program financed by IMF's Extended Fund Facility (EFF). On 26 October 1994 Jordan signed a peace treaty with Israel that contained protocols for economic reform and regional integration. The fiscal year 1994/95 saw real GDP growth of about 6% and inflation of only about 3% to 3.5%. In order to build on these gains, and to incorporate the opportunities offered by the peace accord, a new three-year program was negotiated under the EFF, which ran officially from 6 February 1996 to 8 February 1999. In this case, the program fell well short of its targets, as real GDP growth slowed to an annual average of 1%, and budget deficits as a percent of GDP increased to 10% instead of decreasing as envisioned.

In April 1999 another three-year structural adjustment program was embarked upon, this time with finance from both the EFF and the Compensatory and Contingency Financing Facility (CCFF) of the IMF. The program called for privatization, tax reform, trade liberalization and increased foreign investment. Advances were made in all these areas. The government divested itself of shares in over 50 corporations, among the most important being the sale of a 10.5% share in the Jordan Telecommunications (JT) in an initial public offering (IPO) on the 'Amman Stock Exchange (ASE) in October 1999, and a further sale of 40% to a France Telecom/Arab Bank Consortium in January 2001. All or portions of the subsidiaries of the national airline, the Royal Jordanian, were privatized including the sale of 80% of Aircraft Catering Center to the Alpha British Company. By November 2002, the ASE had attained a capitalization of over \$7 billion. Tax reforms included the lowering of top rates on personal and business income taxes, the elimination or reduction of a number of subsidies and exemptions, phased introduction of a value-added tax (VAT) regime, and, in connection with trade liberalization reforms, the reduction of many customs and tariffs.

In 2000, Jordan acceded to the WTO, a condition of which was the elimination of most laws limiting foreign investment. On 28 September 2001 the US Congress passed a separate Free Trade Agreement (FTA) with Jordan. In the period 1999 to 2002, the biggest single stimulus to the Jordanian economy came from the Qualifying Industrial Zones (QIZs), a type of industrial estate authorized in a 1998 agreement among Jordan, Israel and the United States, whereby manufactured exports from a QIZ could enter the US market duty free provided it contained at least 35% local content. QIZs particularly have nurtured a fast growing textile export industry. The targets set by the IMF-monitored program for 1999–2002—including annual growth of 3–4%, inflation held to 2–3%, a budget deficit reduced to 4% of GDP by 2001, and a strengthening of the country's foreign reserve position—were all substantially met despite the eruption of the second Palestinian *intifada* in late 2000 and the global economic

slowdown from 2001 forward. Real GDP growth rose steadily from 3.1% to 4% to a projected 5.2% from 1999 to 2002.

Inflation, as measured by consumer prices, was negligible, falling from 3.1% in 1998 to 0.6%, 0.7% and 1.8% 1999–2001. An increase in inflation in 2002 to 3.5% is attributable mainly to administered price increases, particularly for electricity and petroleum products, as subsidies were removed. The government's annual deficit as a percent of GDP was at 3.7% in 2001, better than the program's 4% target, but in this case progress was not uninterrupted: the deficit rose to 4.7% of GDP in 2000 and was projected at 4.1% for 2002. There was, however, uninterrupted progress in terms of net public debt as a percent of GDP, which fell from 105.1% of GDP in 1999 to a projected 88.2% in 2002. Part of this improvement stemmed from some debt forgiveness by the United States and the European Union. As of the end of 2002, five Paris Club reschedulings of Jordan's sovereign debt—from February 1992, June 1994, May 1997, May 1999, and July 2002, respectively—were being paid down. On its foreign reserve position, according to the IMF, Jordan's net usable international reserves in the period 1999 to 2002 were on average sufficient to cover a little over 7 months of imports, up from only a four-month coverage in 1998. In May 2002, Jordan's international reserves were close to \$3 billion.

In November 2001, the government introduced its Plan for Social and Economic Transformation (PSET), a program of health and education spending and transfer payments to the poor amounting to 4% of GDP and to be financed in such a way from grants and revenues so as not to add to the country's debt. PSET particularly aims at dealing with Jordan's chronic unemployment problem, which due in part to Malthusian population growth dynamics, worsened slightly—from 12.7% in 1998 to 14.7% in 2001—during the latest period of economic growth. Population growth is such that the 8.6% growth in nominal GDP between 1999 and 2001 produced only a 2.4% increase in per capita income. In July 2002 the IMF announced a two-year stand-by agreement with Jordan for SDR85.28 million (about \$113 million) to support both the PSET and the continuing program of economic reforms. The Jordanian economy has managed to continue to improve in 2002, with the second Palestinian *intifada* unfolding next door.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Jordan's gross domestic product (GDP) was estimated at \$22.8 billion. The per capita GDP was estimated at \$4,300. The annual growth rate of GDP was estimated at 3.5%. 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 4% of GDP, industry 26%, and services 70%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1.664 billion or about \$339 per capita and accounted for approximately 22.5% of GDP. Worker remittances in 2001 totaled \$1.810 billion. Foreign aid receipts amounted to about \$86 per capita and accounted for approximately 5% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,210. 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 32% of household consumption was spent on food, 17% on fuel, 5% on health care, and 8% on education. The richest 10% of the population accounted for

approximately 29.8% of household consumption and the poorest 10% approximately 3.3%. It was estimated that in 2001 about 30% of the population had incomes below the poverty line.

## 21 LABOR

The labor force numbered 1.26 million people in 2001, with an additional 300,000 workers employed abroad. In that year the service industry accounted for 83% of the workforce, industry employed 13%, with the remaining engaged in agriculture. The official unemployment rate was 16% in that year, however the actual rate may be as high as 30%.

Workers have the right to form unions and must register to be legal. The General Federation of Jordanian Trade Unions, formed in 1954, was comprised of 17 trade unions in 2002. Approximately 30% of the labor force is unionized. Unions are allowed to collectively bargain but they are not allowed to strike or demonstrate without a permit. Labor disputes are mediated by the Ministry of Labor. The government does not adequately protect employees from antiunion discrimination.

The national minimum wage was \$114 per month in 2002 for all sectors except agriculture and domestic labor. This amount does not provide the average family with a living wage. The minimum working age is 16 and this is effectively enforced by the Ministry of Labor except for children working in family businesses or on family farms. The standard workweek is 48 hours, with up to 54 hours per week for hotel, restaurant, and cinema employees.

## 22 AGRICULTURE

Agriculture still plays a role in the economy, although 40% of the usable land consists of the West Bank, lost to Jordan since 1967. As of 1998, only 4.4% of all land in Jordan was utilized for crop sown feed production. Rain-fed lands make up 75% of the arable land, while the remaining 25% is partially or entirely irrigated and lies mostly in the Jordan Valley and highlands. While the system of small owner-operated farms, peculiar to Jordan among the Arab countries and originating in the Land Settlement Law of 1933, limits the number of large landowners and share tenancy, the minuscule holdings have inhibited development. Agriculture accounted for 4% of GDP in 2001.

Production of principal field crops in 1999 included wheat, 12,000 tons; barley, 5,000 tons; and tobacco, 2,000 tons. Prominent vegetables and fruits produced in 1999 included tomatoes, 305,000 tons; eggplant, 16,000 tons; cucumbers, 74,000 tons; cauliflowers, 26,000 tons; and cabbages, 28,000 tons. Over 16 million fruit trees that year produced 114,000 tons of citrus, 55,000 tons of olives, 73,000 tons of bananas, and 15,000 tons of grapes. The output of fruits and vegetables has been encouraging, in part because of increased use of fertilizers, herbicides, and plastic greenhouses by the nation's farmers in the Jordan Valley.

Irrigation schemes and soil and water conservation programs have received emphasis in Jordan's economic development. The 77-km (48-mi) East Ghor Canal, substantially completed in 1966 and reconstructed in the early 1970s after heavy war damage, siphons water from the Yarmuk River and provides irrigation for about 13,000 hectares (32,000 acres). Water conservation in other areas has been undertaken with the rehabilitation of old water systems and the digging of wells. As of 1998, an estimated 75,000 hectares (185,000 acres) were irrigated.

The cooperative movement has made progress in the agricultural sector; the Central Cooperative Union, established in 1959, provides seasonal loans and advice to local cooperatives. The Agricultural Credit Corporation, founded in 1960, provides low-cost loans to finance agricultural investments.

## 23 ANIMAL HUSBANDRY

Raising livestock for both meat and dairy products is an important part of Jordanian agriculture. Animal husbandry is usually on a small scale and is often of the nomadic or seminomadic type indigenous to the area. The large nomadic tribes take their camels into the desert every winter, returning nearer to the cultivated area in summer. The camels provide transportation, food (milk and meat), shelter, and clothing (hair); the sale of surplus camels is a source of cash. Sheep and goat nomads make similar use of their animals. Imported milk and meat are sold at subsidized prices.

Animal products account for about one-third of agricultural output. Sheep and goats account for 90% of the livestock, and are raised for both meat and milk. The Awasi is the major breed of sheep used, and the goat is the Baladi. In 2001, the number of sheep was estimated at 1,484,000, goats at 426,000, and cattle at 67,000 head. Jordan had an estimated 23,750,000 chickens in 2001; poultry meat production was 117,000 tons that year. Meat production from cattle and sheep reached 8,300 tons in 2001. Production of fresh milk from cattle and sheep was 185,000 tons in 2001. Jordan produces about 31% of its needs in red meat and 50% of milk.

## 24 FISHING

Fishing is unimportant as a source of food. The rivers are relatively poor in fish; there are no fish in the Dead Sea, and the short Gulf of Aqaba shoreline has only recently been developed for fishing. The total fish catch was only 550 tons in 2000.

## 25 FORESTRY

Jordan formerly supported fairly widespread forests of oak and Aleppo pine in the uplands of southern Jordan, both west and east of the Jordan River, but forestland now covers less than 1% of the total area. Scrub forests and maquis growths are the most common; the olive, characteristic of the Mediterranean basin, is widely cultivated. The important forests are around Ajlun in the north and near Ma'an. By 1976, some 3,800 hectares (9,400 acres) had been newly planted as part of a government afforestation program. From 1976 to 1991, an additional 10,000 hectares (24,700 acres) also was reforested. Roundwood production was 226,000 tons in 2000. Imports of forestry products totaled \$147 million in 2000.

## 26 MINING

Jordan's leading industry and export commodity in 2002 was phosphate, ranking sixth in world output. Potash was the third top export commodity and fifth-leading industry, ranking seventh in world output. Fertilizers (made from phosphate rock and potash) ranked second among export commodities, and cement production ranked fourth among industries. Jordan also produced common clay, feldspar, natural gas and petroleum (for domestic consumption), gravel, gypsum, kaolin, lime, limestone, marble, crushed rock, salt, silica sand, steel, dimension stone, sulfuric acid, and zeolite tuff. In 2001, Jordan mined no metals, although it had deposits of copper, gold, iron, sulfur, titanium, and, in the Dead Sea, bromine and manganese. The output of mining and quarrying, which grew by 4.1% in 2001, accounted for 3% of GDP; construction accounted for 5.5%. GDP grew by 4.2% in 2001, 4% in 2000, 3.1% in 1999, and 3% in 1998, and was expected to grow 5.1% in 2002 and 6% in 2003. Of Jordan's \$1.91 billion in exports in 2001, stone, cement, fertilizers, phosphate rock, phosphoric acid, potash, and sulfuric acid accounted for \$541 million. Exports of phosphate rock fell from \$190 million in 1997 to \$129.9 million in 2001; 60% of phosphate output was exported, and 61.5% of exports went to India. Potash exports earned \$195.4 million, up from \$139.2 million in 1997.

Phosphate mine output (gross weight) in 2001 was 5.8 million tons. The sole producer, the Jordan Phosphate Mines Company (JPMC), was to be privatized by 2002, and planned to increase production at the Shiyada Mine, the largest of JPMC's three mines, to 7.4 million tons per year in 2003, from a 2001 capacity of 3.3 million tons. Resources at the Rusaifa Mine have been depleted. Phosphoric fertilizers (443,000 tons in 2001, down from 613,821 in 1999) and phosphoric acid (149,000 tons in 2001) were produced from phosphate rock. Phosphate reserves totaled 1 billion tons.

Production of potash crude salts—from Dead Sea potassium—was a record 1.96 million tons in 2001, up from 1.53 million tons in 1998. Capacity was expected to increase to 2.4 million tons in 2004, and the 53%-government-owned Arab Potash Co. (APC) was to be privatized by 2002. The World Bank has estimated that of the dissolved solids contained in the Dead Sea, 33 billion tons were sodium chloride and magnesium chloride and about 2 billion tons were potassium chloride.

Copper deposits between the Dead Sea and the Gulf of Aqaba remained undeveloped. Other potential for progress lay in the availability of bromine, dolomite, glass sands, iron, lead, oil shale, tin, travertine, and tripoli. Jordan Magnesia Company, a subsidiary of APC, was building a plant to produce 50,000 tons per year of refractory grade magnesia and 10,000 tons per year of other grades of magnesia—to be extracted from the Dead Sea, starting in 2002—and the Jordan and Bromine Co. Ltd. started building a plant to produce bromine and bromine compounds, beginning in 2003; the success of both projects would depend on external demand.

## 27 ENERGY AND POWER

Jordan does not have petroleum deposits. Before the 1991 Gulf War, its imports of oil from Sa'udi Arabia via the Trans-Arabian pipeline (Tapline) and its refinery at Az-Zarqa' supplied virtually all the country's energy needs. Sa'udi Arabia stopped supplying Jordan via the Tapline during the war to protest Jordan's tacit support of Iraq during the war. With the UN embargo that followed, however, Jordan became the sole legal recipient of Iraqi oil exports, which typically are imported by tanker truck. As of 1999, Jordanian officials were discussing the possibility of reducing this dependence by importing oil from Sa'udi Arabia or Kuwait. Crude oil imports in 2001 averaged 99,000 barrels per day. Large deposits of oil shale have been found, and exploratory drilling for oil and gas has begun in the eastern desert. The Az-Zarqa' refinery had a capacity 90,400 barrels per day in 2001.

Over 99% of electric power was thermal as of 2000, with hydroelectric power accounting for less than half of one percent. The government electrification plan calls for establishment of a national grid, linking the major cities. A project linking the Jordanian and Egyptian power grids via an underwater cable from Aqaba to Talra was inaugurated in 1999. As of 2001, net installed electrical capacity was 1,460 MW, and electricity generated totaled 6,900 million kWh. Consumption of electricity in 2000 was 7.1 billion kWh.

## 28 INDUSTRY

With government encouragement, industry plays an increasingly important part in Jordan's economy. In 1990, the manufacturing sector contributed 15% to GDP at factor cost. Manufacturing output fell by 2.9% in 1991 due to the adverse impact of the Gulf War. In 1992, the sector grew by 6.2%. In 2001, industry as a whole accounted for 26% of GDP, while manufacturing contributed 17%. The sector grew at an annual rate averaging 6.7% between 1988 and 1998. Most industrial income comes from four industries: cement, oil refining, phosphates, and potash. Cement production has been rising since the 1980s. In 1998, government sold 33% of the Jordan Cement Factories Company (JCFC) to La Farge of France as part of its program of



privatization begun in 1996. The 60-year old Jordan Phosphates Mine Company (JPMC) has a monopoly on phosphate mining in Jordan. In 2002 the government began negotiating with the Potash Company of Saskatchewan for the sale of a 40% stake in JPMC, finalization scheduled for March 2003. The Arab Potash Company, a pan-Arab company, was granted a 100-year monopoly for potash mining in Jordan when it was founded in 1956. As of 2003, the government holds 52% and is seeking to sell 26%. Jordan's one oil refinery is in Az-Zarqa', which has a capacity of 90,4000 barrels per day. Oil is supplied to it from Iraq by a fleet of 1,500 trucks traveling across 600 miles of desert highway. Iraq sells oil to Jordan on terms of one-half free and one-half with a 40% discount of the price above \$20/barrel. Since 1998 Jordan and Iraq have been agreed in principle to replace the oil trucks with a pipeline, estimated to cost \$350 million. In 2002, Jordan was formally receiving bids for the first stage of the projects. The government holds 52% in a 100-year monopoly.

## 29 SCIENCE AND TECHNOLOGY

Expenditures for research and development in 1987-97 totaled 0.26% of GNP. A dozen institutes offer scientific training. The Islamic Academy of Sciences, founded in 1986, is an international organization that promotes science, technology, and development in the Islamic and developing worlds. The Jordan Research Council, founded in 1964, coordinates scientific research in the country. The Royal Scientific Society, founded in 1970, is an independent industrial research and development center. All three institutions are in 'Amman. In 1996 Jordan had 13 universities and colleges offering courses in basic and applied science. In 1987-97, science and engineering students accounted for 26% of college and university enrollments.

## 30 DOMESTIC TRADE

Lack of proper storage facilities, inadequate transportation service, and a lack of quality controls and product grading have been chronic handicaps to Jordanian trade. However, these deficiencies have been alleviated, directly and indirectly, under progressive development plans. Traditional Arab forms of trade remain in evidence, particularly in villages, and farm products generally pass through a long chain of middlemen before reaching the consumer. In 'Amman, however, Westernized modes of distribution have developed and there are supermarkets and department stores as well as small shops. Some local investors are beginning to take an interest in the potential for foreign franchises.

Business hours are from 8 AM to 1 PM and from 3:30 to 6:30 PM, six days a week. Shops close either on Friday for Muslims or on Sunday for Christians. Banks stay open from 8:30 AM to 12:30 PM and from 3:30 to 5:30 PM, Saturday through Thursday.

## 31 FOREIGN TRADE

Jordan has traditionally run a trade deficit with imports at least doubling exports. During the 1990s, fertilizers accounted for about a quarter of Jordan's commodity exports, and amounted to almost a quarter of the world's total exports of crude fertilizers (23%). However, in 2000, Jordan's fertilizer exports plummeted, accounting for a mere 7.6% of exports. No particular commodity now dominates Jordan's export market, but key exports include apparel (8.9%), medical and pharmaceutical products (8.6%), and paper products (4.7%). Other important exports are industrial machinery (4.8%) and vegetables (6.4%).

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

Consumer goods	11.4%
Food	17.1%
Fuels	4.8%
Industrial supplies	30.7%
Machinery	15.7%
Transportation	17.5%
Other	2.8%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Sa'udi Arabia	119	149	-30
United States	67	452	-385
Iraq	32	159	-127
Turkey	16	90	-74
Germany	14	524	-510
Japan	14	180	-166
Italy	9	165	-156
Korea	9	162	-153
United Kingdom	n.a.	207	n.a.
France	n.a.	172	n.a.

## 32 BALANCE OF PAYMENTS

Jordan's chronically adverse trade balance has long been offset by payments from foreign governments and agencies, especially from Jordan's oil-rich Arab allies, and by remittances from Jordanians working abroad, chiefly in Sa'udi Arabia. During the Gulf War, expatriate remittances and aid from Arab countries dropped sharply, causing the improvement of the trade deficit to halt. This trend continued into the mid-1990s despite an increasing surplus in the services sector. Although Jordan enjoyed a balance of payments surplus in 2000 of around 11% of GDP, the country suffers from a chronic trade deficit, largely due to its reliance on foreign oil. Annual imports usually amount to more than double the exports.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Jordan's exports was \$2.5 billion while imports totaled \$4.4 billion resulting in a trade deficit of \$1.9 billion.

The International Monetary Fund (IMF) reports that in 2001 Jordan had exports of goods totaling \$2.3 billion and imports totaling \$4.3 billion. The services credit totaled \$1.48 billion and debit \$1.73 billion. The following table summarizes Jordan's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-4</b>
Balance on goods	-2,007
Balance on services	-243
Balance on income	187
Current transfers	2,059
<b>Capital Account</b>	<b>22</b>
<b>Financial Account</b>	<b>-528</b>
Direct investment abroad	-8
Direct investment in Jordan	100
Portfolio investment assets	...
Portfolio investment liabilities	-172
Other investment assets	27
Other investment liabilities	580
<b>Net Errors and Omissions</b>	<b>80</b>
<b>Reserves and Related Items</b>	<b>-625</b>

## 33 BANKING AND SECURITIES

The Central Bank of Jordan, founded in 1964 with a capital of JD2 million and reorganized in 1971, is in charge of note issue, foreign exchange control, and supervision of commercial banks,

in cooperation with the Economic Security Council. In 1995, the Central Bank established the dinar as a fully convertible currency for non-capital remittances. In November of that year the bank announced a fixed dollar-dinar rate for current payments. Because of Jordan's IMF-led structural adjustments and trade and investment liberalizations, it became the first Arab country to receive credit ratings from both Standard and Poor and Moody's.

The banking system includes, besides the Central Bank, thirteen commercial banks (five of which are branches of foreign banks), five investment banks, two Islamic banks, one Industrial Development Bank, and several other institutions. Commercial banks have a tradition of being both small, with a low capital base, and highly conservative. The Arab Bank, by far the largest "high street" bank, and the Housing Bank are the largest banks in Jordan. Jordanian banks have acted rapidly to fill the banking void in the Occupied Territories, since the agreement between the PLO and Israel transferred administrative authority to the Palestinians. State banks include the Arab Bank, The Bank of Jordan, Cairo 'Amman Bank, Jordan-Kuwait Bank, and the Jordan National Bank. Commercial banks included those of Jordan, other Arab countries, the United Kingdom, and the United States. Foreign commercial banks in Jordan include the British Bank of the Middle East, Citibank (US), the Arab Land Bank, and the Arab Banking Corporation (Jordan). The late 1970s and 1980s saw an expansion of niche institutions, such as four investment banks, six specialized credit institutions (three of which are under public ownership), four non-banking financial institutions, and one Islamic bank. Unfortunately, many of these have been either too small to have had a strong impact on the provision of credit, or have replicated the approach of the commercial banks. Since 1992, moneychangers have been able to operate legally, having been closed down in February 1989, but their area of operation has been heavily circumscribed.

Loans are extended by the Jordan Industrial Bank, Agricultural Credit Corp., Jordan Co-operative Organization, and other credit institutions.

The 'Amman Financial Market (AFM) has been in existence since the late 1970s. Like most of the equity markets in the Middle East, the AFM is small and lacking in the dynamism that has seen markets in Latin America and Asia take off over the past ten years. A total of 115 companies were listed in 1997, making the AFM second in the Arab world only to Egypt, which quoted some 700 stocks. The capitalization of the AFM stood at around \$5 billion, putting it level with Bahrain, but ahead of Oman and Tunisia. In 1996, the government instituted a law allowing foreigners to invest in the AFM. In 1999, the 'Amman Stock Exchange was established as a privately managed institution. There were 149 listed public-shareholding companies at that time, with a market capitalization of approximately \$6 billion.

### 34 INSURANCE

The Al Ahlia Insurance Co. and the Jordan Insurance Co. offer commercial insurance. Several US and British insurance companies have branches or agents in Jordan. A new insurance law in 1998 brought about stricter regulation of the industry. In 1999, there were 26 national insurance companies operating in Jordan and one foreign insurance company. In 2001, \$24 million was spent on life insurance premiums.

### 35 PUBLIC FINANCE

Jordan has had to rely on foreign assistance for support of its budget, which has increased rapidly since the 1967 war. During the late 1980s, Jordan incurred large fiscal deficits, which led to a heavy burden of external debt. Efforts at cutting public expenditures reduced the budget deficit from 21% of GDP in 1989 to 18% in 1991. The Persian Gulf War, however, forced Jordan to delay the IMF deficit reduction program begun in 1989.

The US Central Intelligence Agency (CIA) estimates that in 2001 Jordan's central government took in revenues of approximately \$29 billion and had expenditures of \$31 billion. Overall, the government registered a deficit of approximately \$2 billion. External debt totaled \$8.2 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%	29,000
Tax revenue	65.0%	18,858
Non-tax revenue	20.9%	6,071
Capital revenue	0.4%	114
Grants	13.6%	3,956
EXPENDITURES	100.0%	31,038
General public services	6.6%	2,046
Defense	17.5%	5,427
Public order and safety	9.1%	2,812
Education	16.1%	4,979
Health	10.6%	3,273
Social security	16.7%	5,184
Housing and community amenities	1.8%	561
Recreation, cultural, and religious affairs	1.5%	468
Economic affairs and services	8.0%	2,494
Other expenditures	1.9%	595
Interest payments	10.3%	3,200

### 36 TAXATION

A new income tax law went into effect in 2002 that reduced the top income tax rate to 25% from 30%. The new law also equalized the level of tax exempt income for men and women, at JD1,000 (about \$1,418) for both sexes. Income tax rates range from 5% to 25%, with the average tax payer paying a marginal rate of 5%. Corporations are taxed at a rate of 15% (35% for those involved in banking and finance). In January 2001 Jordan entered the second phase of its transformation to a value-added tax (VAT) regime, a reform begun in 1996. The VAT rate is 13%, and in 2001 about 25 new commodities were added to its coverage, including some food products, tobacco, coffee, soft drinks, new cars, heavy-duty vehicles and paper products. Businesses with sales less than JD250,000 (about \$355,000) a year are exempt from registering for the VAT. There are no capital gains or net worth taxes on individuals, and social security taxes are paid jointly by employers and employees.

### 37 CUSTOMS AND DUTIES

Customs and excise duties used to provide a large portion of all tax revenues, but following accession to the World Trade Organization, they are no longer so high. All imports and exports are subject to licenses. Import duties are levied by CIF (cost, insurance, and freight) value, with a 0% to 30% rate. There is also a 13% value-added tax (VAT) that is applied to both imported and domestically produced goods. Jordan grants preferential treatment to imports from Arab League countries, under bilateral trade agreements that exempt certain items from duty and under multilateral trade and transit agreements with Arab League countries. Jordan also signed a bilateral free trade agreement (FTA) with the United States in October 2000.

### 38 FOREIGN INVESTMENT

In the past there was little foreign investment in Jordan apart from the oil pipelines, but in the early 1970s, the government began offering liberal tax inducements, including a six-year corporate tax holiday for firms established in 'Amman and a tax holiday of up to 10 years for those outside the capital. 100%

foreign ownership of local enterprises is permitted in some cases. In 1980, the government formed the Jordanian Industrial Estates Corp., near 'Amman, to attract new industries to planned industrial complexes; investors were granted two-year income tax exemptions. Jordan also has established four free-trade zones, at Al-'Aqabah, Az-Zarqa', and the Queen Alia International Airport and along the Syrian frontier, near the Jordan-Syria rail link.

In 1995, Jordan hosted an international conference on investment in the Kingdom as part of its recent opening to international investment. It also announced intentions to begin selling off government shares in major enterprises, including telecommunications and the Royal Jordanian Airlines. In 1997, the country had \$1.2 billion in foreign exchange reserves.

### 39 ECONOMIC DEVELOPMENT

Before the upheavals caused by the war of 1967, the government had begun to design its first comprehensive development plans. The Jordan Development Board, established in 1952, adopted a five-year program for 1961–65 and a seven-year program for 1964–70, which was interrupted by war. In 1971, a newly created National Planning Council, with wide responsibility for national planning, prepared the 1973–75 plan for the East Bank, with a planned total outlay of JD179 million. The main objectives were to reduce the trade deficit, increase the GNP, expand employment, and reduce dependence on foreign aid. At least 60% of the planned projects were completed, and a new five-year plan was instituted on 1 January 1976.

The 1976–80 plan entailed outlays of JD844 million (at 1975 constant prices) and achieved an annual GDP growth rate of 9.6%, below the goal of 11.9%. Notable development projects included port expansion at al 'Aqabah and construction of Queen Alia International Airport. The 1981–85 development plan allocated funds totaling JD3,300 million and projected an economic growth rate of 10.4% annually (17% for industry and mining, 7% for agriculture). The plan envisaged completion of large potash and fertilizer installations, as well as the first stage of construction of the 150 m (492 ft) Maqarin Dam project on the Yarmuk River, which would store water for irrigation. This project also was to extend the East Ghor Canal 14 km (9 mi) from Karama to the Dead Sea. The Maqarin Dam project was shelved indefinitely, however.

The 1986–90 development plan allocated JD3,115.5 million, to be shared between the public sector (52%) and the private and mixed sector (48%). The goals of the plan were the following: realization of a 5.1% annual growth rate in the GDP; creation of 97,000 new employment opportunities; a decrease in imports and an increase in exports to achieve a more favorable balance of trade; expansion of investment opportunities to attract more Arab and foreign capital; development of technological expertise and qualified personnel; attainment of a balanced distribution of economic gains nationally through regional development; and expansion and upgrading of health, education, housing, and other social services.

Between 1953 and 1986, Jordan received development assistance from the IBRD and other international agencies, other Arab countries, the United Kingdom, Germany, and the United States. The United States provided nearly \$1.7 billion in nonmilitary assistance and more than \$1.4 billion in military aid. Aid from Arab oil-producing countries totaled \$322 million in 1984. The April 1989 riots in Jordan led to a new surge of aid transfers. Arab grants to Jordan in 1989 fell between \$360 million and \$430 million. Political dissatisfaction in Kuwait and Sa'udi Arabia at Jordan's policy during the Gulf crisis resulted, however, in the Gulf states denying further direct grant assistance.

In 1988, Jordan began working with the IMF on restructuring its economy. These plans were thrown into considerable disarray by political events in the Gulf (most notably Jordan's ill-conceived support of Iraq in the face of global opposition to that

country's 1990 invasion of Kuwait), but new agreements were concluded in 1991, as Jordan began to institute democratic reforms. Foremost in the IMF plan are reductions in government spending, taming of inflation, increasing foreign exchange, and decreasing government ownership of economic enterprises. In the economic plan of 1996–98, Jordan was expected to decrease its ownership of enterprises from 1994's level of 64% to 55% by 1998.

### 40 SOCIAL DEVELOPMENT

The social insurance system provides old-age, disability, and survivor benefits, as well as workers' compensation. Public employees and workers over the age of 16 working in private companies with 5 or more employees are covered. Workers contribute 5% of their wages, employers pay 8% of payroll, and the government covered any deficit. The retirement age is 60 for men and 55 for women if coverage requirements are met. A funeral grant of 150 dinars is also provided.

Women's rights are often dictated by Islam. Under *Shari'ah* law, men may obtain a divorce more easily than women, a female heir's inheritance is half that of a male, and in court, a woman's testimony has only half the value of a man's. Married women are required by law to obtain their husband's permission to apply for a passport. Women are discouraged from pursuing careers. The Criminal Code provides for lenient sentences for men accused of murdering female relatives they believed to be "immodest" in order to "cleanse the honor" of their families. This defense is not available to women. Violence against women and spousal abuse is common. The rights of children are generally well respected in Jordan, and the government makes an effort to enforce child labor laws.

Palestinian refugees arriving after 1967 are not entitled to citizenship. Bedouins are entitled to full citizenship, but nonetheless experience professional and social discrimination. Freedom of speech and of the press are restricted by the government. Human rights violations by the government included police brutality, arbitrary arrest and detention, and there were also allegations of torture.

### 41 HEALTH

In 1995, Jordan had 6,839 physicians, 3,118 pharmacists, 2,015 dentists, and 4,304 nurses. As of 1999, there were an estimated 1.7 physicians and 1.8 hospital beds per 1,000 people. The UN Relief and Works Agency for Palestine Refugees (UNRWA) maintains its own hospitals and maternity centers. A medical faculty was added at the University of Jordan in 1972.

Medical services are concentrated in the main towns, but in recent decades the government has attempted to bring at least a minimum of modern medical care to rural areas. Village clinics are staffed by trained nurses, with regular visits by government physicians. As modern medicine has spread to the more remote areas, traditional methods have been dying out. The Ministry of Health, created in 1950, in cooperation with UNICEF, the World Health Organization, and the UNRWA, has greatly reduced the incidence of malaria and tuberculosis. In 1996, there were only 11 reported cases of tuberculosis per 100,000 people. Trachoma, hepatitis, typhoid fever, intestinal parasites, acute skin inflammations, and other endemic conditions remain common, however. In 2000, 96% of the population had access to safe drinking water and 99% had adequate sanitation. As of 1999, total health care expenditure was estimated at 8% of GDP.

In 2000, average life expectancy was 72 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24.6 and 2.6 per 1,000 people. About 50% of married women (ages 15 to 49) used contraception as of 2000. The infant mortality rate was 25 per 1,000 live births in 2000. Under age five mortality has been reduced dramatically from 149 in 1960 to 30 in 2000 for every 1,000 live births. Immunization

rates for children up to one year old between 1990–94 were: tuberculosis, 93%; diphtheria, pertussis, and tetanus, 87%; polio, 94%; and measles, 69%. As of 1999, rates for DPT and measles, respectively, were 97% and 94%. Only four cases of polio were reported in 1994; none were seen in 1996. As of 2000, an estimated 8% of all children under five were malnourished.

In 1999 HIV prevalence was 0.02 per 100 adults.

## 42 HOUSING

A general housing shortage in the mid-1960s was aggravated by the influx of West Bank refugees after the 1967 war, and Jordan still lacked adequate housing in the early 1980s. During 1981–86, some 42,300 new residential building permits were issued. According to 1994 national statistics, there were 831,799 housing units nationwide, including 467,715 apartments, 335,423 dar (traditional, detached structures of one or more rooms), 2,877 barracks, and 6,907 tents. About 80% of all dwelling units were owner occupied. Most residential units were made of cement bricks or concrete blocks. About 3% of all dwellings were described as mud brick and rubble constructions.

## 43 EDUCATION

Jordan has made great strides in reducing illiteracy, the rate of which declined from 68% in 1961 to 13.5% in 1995. Adult illiteracy rates for the year 2000 were estimated at 10.2% (males, 5.1%; females, 15.6%). Education is compulsory between the ages of 6–15. Ten years are devoted to primary education, followed by two years at the secondary stage. In 1998, Jordan had 2,623 primary schools with 45,367 teachers and 1,121,866 pupils. Secondary schools had a total of 155,008 pupils, with 9,300 teachers, in the same year. As of 1999, 94% of primary-school-age children were enrolled in school, while 76% of those eligible attended secondary school. The United National Relief and Works Agency (UNRWA) operates 208 schools in refugee camps. As of 1999, public expenditure on education was estimated at 6.3% of GDP.

Jordan has five universities: the University of Jordan (founded in 1962), at 'Amman; Yarmuk University at Irbid; Mut'ah University, in Karak governorate in southern Jordan; the University of Jordan for Science and Technology; and the Zaqa University established in 1993. In addition there are 53 community colleges; two of these are UNRWA schools on the East Bank for Palestinian students. In 1997, 112,959 students were enrolled at all higher-level institutions while higher education teaching staff numbered 5,275.

## 44 LIBRARIES AND MUSEUMS

The library at the University of Jordan has 670,000 volumes. In 1977, the department of Libraries, Documentation, and Archives was founded to establish the national library, which had 70,000 volumes in 2002. The Scientific and Technical Information Center in 'Amman holds 47,000 volumes. The University of Jordan for Women, founded in 1991, holds 17,000 volumes. More than half of Jordan's museums are archaeological and historical. 'Amman has four major museums: the Jordan Archaeological Museum, the Folklore Museum, the Popular Life Museum, and the Mosaic Gallery.

## 45 MEDIA

Public communications and broadcasting facilities are government controlled. Telephone and telegraph facilities were introduced soon after World War II. Telephone service, at first rudimentary, was expanded in the 1950s; in 1998 Jordan had 425,000 telephones, mostly in 'Amman and the larger towns. In 1995, there were 11,500 cellular phones in use nationwide.

All radio and television broadcasts are controlled by the government. Radio Jordan transmits AM and FM broadcasts in English, and the television stations broadcast programs in

English, Arabic, French, and Hebrew on two channels. As of 1999, there were 6 AM and 5 FM radio stations. In 1995 there were 20 television stations. In 2000 there were 372 radios and 84 television sets for every 1,000 people. The same year, there were five Internet service providers, serving 210,000 subscribers by 2001.

Jordan's four major daily newspapers (with 2002 estimated daily circulations) are *Al-Dustour* (*Constitution*, 100,000), *Al-Rai* (*Opinion*, 90,000), *Sawt Ash-Shaab* (*Voice of the People*, 30,000), and *Jordan Times* (15,000). All except the English-language *Jordan Times* are in Arabic; all are published in 'Amman and are owned and operated by the private sector. *Al-Rai* is a government-controlled paper, founded after the 1970–71 civil war; *Al-Dustour* is 25% government owned. There are also weeklies and less frequent publications published in Arabic in 'Amman. One weekly, *The Star*, is published in English. The press code, enacted in 1955, requires all newspapers to be licensed and prohibits the publishing of certain information, mainly relating to Jordan's national security, unless taken directly from material released by the government.

The constitution provides for freedom of speech and the press; however, in practice there are some significant restrictions on these rights. Private citizens can be prosecuted for slandering the Royal Family, and the Press and Publication Law of 1993 restricts the media coverage of 10 subjects, including the military, the royal family, and economic policy.

## 46 ORGANIZATIONS

Religious organizations still are of major importance, and membership in the hamula, the kinship group or lineage comprising several related families, also is of great significance as a framework for social organization. Literary and theatrical clubs have become popular, especially since World War II, but political organizations died out after the 1957 ban on political parties. There are chambers of commerce in 'Amman and other large towns. The Jordan Trade Association supports business owners with domestic and international holdings. Jordan serves as the home base for a number of multinational organizations, including the Islamic Academy of Sciences and the Arab Music Academy.

National youth organizations include the Jordanian Association for Boy Scouts and Girl Guides, YMCA/YWCA, National Union of Jordanian Students, and the Orthodox Youth Education Society. The Alliance for Arab Women and the Jordanian National Committee for Women are based in 'Amman. The Noor Al-Hussein Foundation, founded in 1985, is a major national social welfare organization. The Red Crescent Society is active as well.

## 47 TOURISM, TRAVEL, AND RECREATION

The East Bank is an area of immense historical interest, with some 800 archaeological sites, including 224 in the Jordan Valley. Jordan's notable tourist attractions include the Greco-Roman remains at Jerash (ancient Garasi), which was one of the major cities of the Decapolis (the capital, 'Amman, was another, under the name of Philadelphia) and is one of the best-preserved cities of its time in the Middle East. Petra (Batra), the ancient capital of Nabataea in southern Jordan, carved out of the red rock by the Nabataeans, is probably the East Bank's most famous historical site. Natural attractions include the Jordan Valley and the Dead Sea, which—at 392 m below sea level—is the lowest spot on Earth.

The beaches on the Gulf of Aqaba offer holiday relaxation for Jordanians, as well as tourists. Sports facilities include swimming pools, tennis and squash courts, and bowling alleys. Eastern Jordan has modern hotel facilities in 'Amman and Al-'Aqabah, and there are government-built rest houses at some of the remote points of interest. Tourists are permitted to bring in unlimited

foreign currency. Passport and visa are required for entry except for nationals of certain Middle Eastern countries.

In 2000, 1,426,879 tourists arrived in Jordan. Of these arrivals, more than 50% were from other Middle Eastern countries. Tourism receipts totaled \$722 million that year. There were 17,485 rooms in hotels and other establishments with 34,433 beds and a 40% occupancy rate in 2000.

In 2000, the US Department of State estimated the cost of staying in 'Amman at \$188 per day. Daily costs elsewhere were about \$135.

#### 48 FAMOUS JORDANIANS

The founder of Jordan's Hashemite dynasty—the term stems from the Hashemite (or Hashimite) branch of the tribe of the Prophet Muhammad—was Hussein ibn-'Ali (Husayn bin 'Ali, 1856–1931), sharif of Mecca and king of the Hijaz.

As a separate Arab country, Jordan has had a relatively short history, during which only two men have become internationally known. The first of these was the founder of the kingdom, 'Abdallah ibn-Husayn (1882–1951). Although he was born in Hijaz and was a son of the sharif of Mecca, he made 'Amman his headquarters. He was recognized as emir in 1921 and king in 1946. The second was his grandson, King Hussein I (Husayn ibn-Talal, 1935–99), who ruled from 1953 until his death. In June 1978, 16 months after the death by helicopter crash of Queen Alia (1948–77), Hussein married his fourth wife, the Queen Noor al-Hussein (Elizabeth Halaby, b. US, 1951).

#### 49 DEPENDENCIES

Jordan has no territories or colonies.

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# KAZAKHSTAN

Republic of Kazakhstan  
*Kazakstan Respublikasy*

**CAPITAL:** Astana (as of December 1997; formerly Almaty)

**FLAG:** Light blue with a yellow sun and soaring eagle in the center and a yellow vertical ornamentation in the hoist.

**ANTHEM:** *National Anthem of Kazakhstan.*

**MONETARY UNIT:** The tenge (T), issued in 15 November 1993, is the national currency, replacing the ruble (R). There is a coin, the tyin. One hundred tyin equal one tenge. As of May 2003, T1 = \$0.00661 (or \$1 = T151.2), but exchange rates fluctuate widely.

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

**HOLIDAYS:** New Year, 31 December–1 January; International Women's Day, 8 March; Nauryz (Kazak New Year), 28 March; Solidarity Day, 1 May; Victory Day, 9 May; Independence Day, 25 October.

**TIME:** 5 PM = noon GMT.

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

Kazakhstan is located in southern Asia between Russia and Uzbekistan, bordering on the Caspian Sea and the Aral Sea, with a total area of 2,717,300 sq km (1,049,155 sq mi). Kazakhstan shares boundaries with Russia on the N and W, China on the E, Kyrgyzstan, Uzbekistan, and Turkmenistan on the S, and the Caspian Sea on the W. Kazakhstan's boundary length totals 12,012 km (7,464 mi). Its capital city, Astana, is located in the north-central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Kazakhstan is varied, as it extends from the Volga River to the Altai Mountains, and from plains in western Siberia to central Asian oasis and desert. About 12% of Kazakhstan's land is arable with less than 1% under irrigation.

## <sup>3</sup>CLIMATE

The country has an arid continental climate. In January, the mean temperature is -5°C (23°F). Rainfall averages between 25 cm (9.8 in) and 38 cm (15 in). Because of the wide ranges in elevation in the country, there are wide variations in temperature and rainfall.

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

The sparse plant covering in the desert consists of saltworts, wormwoods, alhagi, and a haloxylon typical of the southern desert. Animals include the antelope, sand cat, and jerboa.

## <sup>5</sup>ENVIRONMENT

Kazakhstan faces several important environmental issues. As the site of the former Soviet Union's nuclear testing programs, areas of the nation have been exposed to high levels of nuclear radiation, and there is significant radioactive pollution. The nation also has 30 uranium mines, which add to the problem of uncontrolled release of radioactivity. Kazakhstan has sought international support to convince China to stop testing atomic bombs near its territory, because of the dangerous fallout.

Mismanagement of irrigation projects has caused the level of the Aral Sea to drop by 13 m, decreasing its size by 50%. The change in size has changed the climate in the area and revealed 3 million hectares of land that are now subject to erosion.

Air pollution in Kazakhstan is another significant environmental problem. Acid rain damages the environment within the country and also affects neighboring countries. In 1992 Kazakhstan had the world's 14th highest level of industrial carbon dioxide emissions, which totaled 297.9 million metric tons, a per capita level of 17.48 metric tons. In 1996, the total had dropped to 173.8 million metric tons. Pollution from industrial and agricultural sources has also damaged the nation's water supply. UN sources report that, in some cases, contamination of rivers by industrial metals is 160 to 800 times beyond acceptable levels. Pollution of the Caspian Sea is also a problem.

Kazakhstan's wildlife is in danger of extinction due to the overall level of pollution. According to current estimates, some areas of the nation will not be able to sustain any form of wildlife by the year 2015. In the areas where pollution is the most severe, 11 species of mammals and 19 species of birds and insects are already extinct. As of 2001, 15 mammal species, 15 bird species, 5 types of freshwater fish, and 36 species of plant are listed as threatened. Threatened species include the argali, Aral salmon, great bustard, snow leopard, and tiger. The mongolian wild horse has recently become extinct in the wild.

## <sup>6</sup>POPULATION

The population of Kazakhstan in 2003 was estimated by the United Nations at 15,433,000, which placed it as number 61 in population among the 193 nations of the world. In that year approximately 7% of the population was over 65 years of age, with another 29% 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 -0.36%, with the projected population for the year 2015 falling to 15,328,000. The population density in 2002 was

5 per sq km (14 per sq mi). Most people live in the east and north.

It was estimated by the Population Reference Bureau that 56% of the population lived in urban areas in 2001. The capital city, Astana, had a population of 303,000 in that year. The former capital, Almaty, is the largest city with a population of 1,129,400. Other major metropolitan areas include Karaganda, 596,000; Chimkent, 404,000; Pavlodar, 349,000; Semipalatinsk, 342,000; and Ust-Kamenogorsk, 334,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

## **7** MIGRATION

Kazakhs abroad (in China, Mongolia, and other newly independent republics of the former USSR) are encouraged to return. Those who fled in Stalin's time automatically received citizenship; others must apply.

In 1996, there was an organized return of 70,000 Kazakhs from Mongolia, Iran, and Turkey. During 1991–95, 82,000 Ukrainians and 16,000 Belarussians repatriated. Between 1991–96, 614,000 Russians repatriated and 70,000 Kazakhs had repatriated from CIS countries. During 1992–96, 480,000 ethnic Germans had returned to Germany. These Germans were forcibly deported to Central Asia during World War II as from the Volga region.

As of 1996, 42,000 Kazakhs had been displaced internally or had left for other Commonwealth of Independent States (CIS) countries as a result of the ecological problems of the Aral Sea, which had lost three-fourths its volume of water. There were also 160,000 displaced persons as a result of Semipalatinsk, an above-ground nuclear testing site in northern Kazakhstan. Since 1991, 45,000 Kazakhs were displaced internally, and 116,000 had left for other CIS countries.

As of 1999, there were an estimated 35,000 refugees and asylum seekers in Kazakhstan. Of these, there were some 25,000 returnees of ethnic Kazakh origin, 6,000 Tajiks, 3,000 Afghans, Chechens, Georgians, and Armenians, as well as individual cases from China, African and other countries. The majority of the refugee population is located in the former capital Almaty and the southern part of the country. In 2000 the net migration rate was -12.2 migrants per 1,000 population, amounting to a loss of 200,000 people. The government views the emigration level as too high.

## **8** ETHNIC GROUPS

Kazakhs constituted about 53% of the population in 1999 and Russians, about 30%. The remaining population consists of Ukrainians (4%), Uzbeks (3%), Germans (2%), Uighur (1%), and other groups collectively constituting about 7%.

## **9** LANGUAGES

The constitution declares Kazakh to be the state language and requires the president to be a Kazakh speaker. Kazakh is a Turkic language written in Cyrillic script with many special letters (but in Roman script in China since 1960). Modern Kazakh utilizes many words of foreign origin from Russian, Arabic, Persian, Mongol, Chinese, Tatar, and Uzbek. Only about 64% of all Kazakhs can speak the language effectively. Almost everyone can speak Russian (95%), which has special status as the "language of interethnic communication."

## **10** RELIGIONS

According to a 1998 government survey, about 80% of the ethnic Kazakhs are Muslim. The Kazakhs, a distinct ethnic group originating with Turkic and Mongol settlers who arrived there in late antiquity (first century BC), are the dominant group in the population and are primarily Sunni Muslims of the Hanafi school. Islam had been adopted by the Kazakhs as early as 1043,

but many of its popular religious practices did not become common until the late 18th century. The Uzbeks, Uighurs, and Tatars (which together make up less than 10% of the population) are also primarily Sunni Muslim. Other schools represented are Shafit Sunni, Shiite, Sufi, and Akhmadi.

The 1998 report indicates that about 60% of ethnic Slavs are Russian Orthodox; however, 2001 government statistics claim that evangelical Christian and Baptist churches have begun to outnumber Russian Orthodox congregations. There are several other Protestant congregations, including Lutherans, Jehovah's Witnesses, and Seventh-Day Adventists. There is also a small Jewish community.

## **11** TRANSPORTATION

About 17,850 km (11,092 mi) of railroad tracks traverse Kazakhstan. Highways totaled 189,000 km (117,445 mi) in 2002, of which 108,100 km (67,173 mi) were paved. In 1994, General Motors Corp. signed an agreement to distribute North American-built vehicles in Kazakhstan. The primary port is Guryev (Atyrau), on the Caspian Sea. There are 3,900 km (2,423 mi) of inland waterways on the Syrdariya and Ertis Irtysh rivers. Much of the infrastructure connects Kazakhstan with Russia rather than points within Kazakhstan. Landlocked in the center of Eurasia it is dependent on its transport connections through neighboring countries to deliver its goods to world markets. In 2001 there were 449 airports, 28 of which had paved runways. In the same year, 501,000 passengers were carried on scheduled domestic and international flights.

## **12** HISTORY

There is evidence of human habitation in present-day Kazakhstan from the earliest Stone Age, more than 300,000 years ago. The steppe characteristics of most of the region are best suited for nomadic pastoralism, which an ever-shifting pattern of peoples have pursued in this territory. Achaemenid documents give the name Sacae to the first such group to be historically recorded. In the 3rd and 2nd centuries BC they were displaced by the Usun in the east, the Kangiui in the south central region, and the Alani in the west.

The first well-established state was that of the Turkic Kaganate, in the 6th century AD, replaced in the early 8th century by the Turgesh state. In 766, the Karluku established dominance in what now is eastern Kazakhstan. Some of the southern portions of the region fell under Arab influence in the 8th–9th centuries, and Islam was introduced. Western Kazakhstan was under Oghuz control in 9th to the 11th centuries; at roughly the same time the Kimak and Kipchak tribes, of Turkic origin, controlled the east. The large central desert of Kazakhstan is still called "Dashti-Kipchak," or the Kipchak Steppe.

The Karluk state was destroyed by invading Iagmas in the late 9th and early 10th centuries. They formed the Karakhanid state, which controlled extensive lands into what is now China. The Karakhanids were in a constant state of war with the Seljuks, to the south, and control of parts of what is now Kazakhstan passed back and forth between them. The Karakhanids collapsed in the 1130s when they were invaded by Khitans, who established the Karakitai state. In the mid-12th century, Khwarazm split off from the weakening Karakitais, but the bulk of the state survived until the invasion of Genghiz Khan from 1219–1221.

Kazakhstan was part of Batu's Golden Horde, which in the 14th century broke up into the White Horde and Mogulistan. By the early 15th century, the White Horde had split into several large khanates, including the Nogai Horde and the Uzbek Khanate.

The present-day Kazakhs formed in the mid-15th century when clan leaders Janibek and Girei broke away from Abul Khair, leader of the Uzbeks, to seek their own territory in Semirechie, between the Chu and Talas rivers. First to unite the



LOCATION: 48° N; 60° E. BOUNDARY LENGTHS: China, 1,533 kilometers (954 miles); Kyrgyzstan, 1,051 kilometers (653 miles); Russia, 6,846 kilometers (4,254 miles); Turkmenistan, 379 kilometers (236 miles); Uzbekistan, 2,203 kilometers (1,369 miles).

Kazakhs into one people was Khan Kasym (1511–23). When the Nogai Horde and Siberian Khanates broke up in the mid 16th century, tribes from both joined the Kazakhs. The clans separated into three Hordes: the Great Horde, which controlled Semirechie; the Middle Horde, which had central Kazakhstan, and the Lesser Horde, which had western Kazakhstan.

Russian traders and soldiers began to appear on the northwestern edge of Kazakh territory in the 17th century, when Cossacks founded the forts which became the cities of Ural'sk and Gurev. The Kazakh khanate was in disarray at the time, badly pressed by Kalmyk invaders who had begun to move in from the east. Pushed west in what the Kazakhs call their "Great Retreat," the Kazakh position deteriorated until, in 1726, Lesser Horde khan Abul'khair requested Russian assistance. From that point on the Lesser Horde was under Russian control. The Middle Horde was conquered by 1798. The Great Horde remained independent until the 1820s, when pressure from both the Kokand Khanate and Russia forced them to choose what they regarded as the lesser of evils, the Russians.

There was, however, considerable resistance, led by Khan Kenen (Kenisary Kasimov), of the Middle Horde, whose followers fought the Russians 1836–47. Khan Kenen is now regarded as a Kazakh national hero. Russian attempts to quell this resistance led to establishment of a number of forts and settlements in Kazakh territory, which made Kazakh nomadism impossible and destroyed the Kazakh economy.

In 1863, Russia promulgated a policy in the Gorchakov Circular which asserted the right to annex "troublesome" border areas. It was on this basis that Russian troops began the conquest of Central Asia. Most of Kazakhstan was made part of the Steppe district of the Russian empire; the rest was in Turkestan.

Beginning in the 1890s Russian settlers were aggressively moved into fertile lands in northern and eastern Kazakhstan, further displacing the nomadic Kazakhs. Between 1906 and 1912 more than a half-million Russian farms were started as part of the Stolypin reforms. By the time of the 1916 uprising the Kazakhs were broken and starving. Despite a strong effort against the Russians, they were savagely repressed.



At the time of the revolution a group of secular nationalists called the Alash Orda attempted to create a Kazakh government, but it lasted less than two years (1918–20) before surrendering to the Bolsheviks.

The Kazakh Autonomous Soviet Socialist Republic was declared in 1920 and elevated to full republic status in 1936. In the period 1929–34, when Stalin was abolishing private agriculture and establishing huge collective farms, Kazakhstan suffered repeated famines which killed at least 1.5 million Kazakhs, as well as destroying 80% of the republic's livestock.

In World War II much Russian industry was evacuated to Kazakhstan; this was followed in 1953–65 by the so-called Virgin Lands campaign, which converted huge tracts of Kazakh grazing land to wheat and other cereal production. This campaign brought thousands more Russians and other non-Kazakhs to Kazakhstan; as a result Kazakhstan became the only Soviet republic in which the eponymous people were not a majority of the population. Because Russians and other Europeans nearly equal the number of Kazakhs in the republic, virtually every public act requires a delicate balancing of differing interests.

On 16 December 1986, Mikhail Gorbachev replaced Kazakhstan's longtime leader Dinmukhamed Kunayev, a Kazakh, with a Russian from outside the republic. This set off three days of rioting, the first public nationalist protest in the Soviet Union. In June 1989, more civil disturbances hastened the appointment of Nursultan Nazarbayev as republic leader. A metallurgist and a Kazakh, Nazarbayev became prominent in the last Soviet years as a spokesman both for greater republic sovereignty and for the formation of a confederation of former Soviet republics. He was elected president by the Kazakhstan parliament in 1990, which was reaffirmed by public vote in an uncontested election in December 1991. Not a party to the dissolution of the Soviet Union announced in early December 1991, Nazarbayev prevailed in arguments that Kazakhstan and other Central Asian states must join the new Commonwealth of Independent States.

Nazarbayev arranged a call by an extra-constitutional quasi-legislative 327-member People's Assembly composed of various cultural and ethnic leaders for an 29 April 1995 referendum on extending his rule until the year 2000. The extension was approved by over 93% of voters.

In October 1998, the Kazakh legislature approved constitutional amendments that enabled Nazarbayev to call for an early presidential race for 10 January 1999. The US State Department in November 1998 criticized a decision of the Kazakh Central Electoral Commission (CEC) and the Supreme Court that major opposition figure Akezhen Kazhegeldin was ineligible to run in the presidential race because of his participation in an "unauthorized" democracy meeting. Three candidates were registered besides Nazarbayev, but only one ran as a true opposition candidate. Onerous registration requirements included a \$30,000 deposit (forfeited by the losers) and 170,000 signatures gathered in at least eleven of sixteen regions. Nazarbayev's candidacy was extensively covered by state-owned media. The Kazakh Central Electoral Commission reported that Nazarbayev had won with 79.8% of about seven million votes cast. The Organization for Security and Cooperation in Europe (OSCE) sent only token monitors, and declared on 11 January 1999, that "the electoral process ... was far removed" from OSCE standards which Kazakhstan had pledged to follow. At his 20 January inauguration, Nazarbayev pledged to work to create a "democratic society with a market economy," to raise the standard of living, and to uphold existing foreign and ethnic policies.

Nazarbayev has stated that the geographic location of Kazakhstan and its ethnic makeup dictate its "multipolar orientation toward both West and East." He has pursued close ties with Turkey, trade ties with Iran, and better relations with China, which many Kazakhs have traditionally viewed with

concern as a security threat. Kazakhstan has extensive trade ties with China's Xinjiang Province, where many ethnic Kazakhs and Uighurs reside.

While seeking to protect Kazakh independence, Nazarbayev has also pursued close relations with Russia and other Commonwealth of Independent States (CIS) members for economic and security reasons. During Nazarbayev's July 1998 visit to Moscow, he and Yeltsin signed a Declaration of Eternal Friendship and Alliance Cooperation in which both sides pledged to assist each other in the case of threats against each other, including by providing military support. In early 1999, Kazakhstan reaffirmed a CIS collective security agreement pledging the parties to provide military assistance in case of aggression against any one of them. In 1995, Kazakhstan joined the customs union formed by Russia and Belarus, which was reaffirmed in an accord on "deeper integration" signed in 1996 (Kyrgyzstan also signed and Tajikistan joined in 1998). Nazarbayev has been highly critical of the feeble union. Another customs union, formed in 1994 between Kazakhstan, Kyrgyzstan, and Uzbekistan (joined by Tajikistan in 1998), was set back by the repercussions of the 1998 Russian and Asian financial crises.

Kazakhstan is the most economically developed of the former Soviet Central Asian republics. Kazakhstan's economic prospects are promising because of its vast energy and mineral resources, low foreign debts, and well-trained work force. There is more Western private investment in Kazakhstan than elsewhere in Central Asia because of Kazakhstan's oil resources and efforts to attract investment. Second to Russia, Kazakhstan has the largest oil and gas reserves of the Caspian Sea regional states, holding promise of large export revenues. Russia's pipelines, the major means for exporting Kazakh oil, were supplemented in 2001 with the opening of a 1,580-km (930-mi) oil pipeline from Kazakhstan to Russia's Black Sea port of Novorossiisk. Kazakhstan has also been involved in an oil swap arrangement with Iran, whereby Kazakhstan sends oil by tanker to northern Iran, and Iran in exchange exports some oil from its Persian Gulf ports. On 18 November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on constructing a trans-Caucasus oil pipeline from Azerbaijan to Turkey (expected to be completed in 2004 with a capacity of one million barrels per day).

Following the 11 September 2001 terrorist attacks on the United States, Kazakhstan offered the use of its military bases, as well as air space for military and humanitarian purposes during the US-led military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces. Since 11 September, all radical Islamic groups in the Central Asian nations have been linked with international terrorism. Both the Hizb-ut-Tahrir ("Freedom Party") and the Islamic Movement of Uzbekistan (IMU), two radical Islamic organizations looking to establish an Islamic state in Central Asia, have operations in the country, but the major units of the IMU have been destroyed by the US-led coalition.

### 13 GOVERNMENT

In March 1995, the Kazakh Constitutional Court ruled that the March 1994 legislative election was invalid because it violated the principle of "one person, one vote." Constituencies had not been drawn up representing approximately equal populations, and confused voting procedures resulted in electors voting for several candidates, it declared. On 11 March Nazarbayev announced that the decision was in accordance with the constitution and dissolved the legislature. Some of the dismissed deputies tried to set up an alternative parliament, but the rebel movement soon fell apart. Nazarbayev announced that he would rule by decree pending new elections and called for a new constitution to be drafted, using France's parliamentary system as a model. On 30 August 1995, a referendum on a new constitution that widened presidential powers was passed with 89% of the vote. According to the US State Department,

proposals by democracy and human rights advocates during the discussion phase were not incorporated into the final constitutional draft submitted to the referendum, and the turnout and results were “exaggerated.”

Compared to an earlier 1993 constitution, the 1995 constitution increases the president’s powers and reduces those of the legislature, and places less emphasis on protecting human rights. As fleshed out by a presidential edict, the legislature does not control the budget or its agenda, cannot initiate changes to the constitution, or exercise oversight over the executive branch. The president’s nominees for premier and state bank head are ratified by the Majlis, the lower house of parliament, but he appoints the rest of the cabinet. If the legislature fails within 30 days to pass an “urgent” bill brought by the president, he may issue it by decree. About 10% or less of bills are initiated by deputies, but they debate and have forced minor changes in bills initiated by the presidency. While the president has broad powers to dissolve the legislature, it may only remove him for disability or high treason.

In October 1998, without any public debate, the legislature quickly rubber-stamped nineteen constitutional amendments and announced an early presidential election. The changes included increasing the presidential term from five to seven years, lifting the 65-year age limit on governmental service, creating party list representation in the Majlis, extending the term of office from four to five years for the lower legislative chamber (the Majlis) and from four to six years for the upper legislative chamber (the Senate). The Majlis consists of 77 seats, 10 of which are elected from the winning party’s lists. The Senate has 39 seats (previously 47). Seven senators are appointed by the president; other members are popularly elected, two from each of the 14 oblasts, the capital of Astana, and the city of Almaty.

On 10 January 1999, Nazarbayev won reelection as president for a seven-year term in an election that fell far short of international standards. He won 81.7% of the votes cast; three other contenders shared the rest. Nazarbayev’s most serious challenger, former Prime Minister Akezhan Kazhegeldin, was excluded from running on a technicality.

Kazakhstan held indirect elections 17 September 1999; regional legislatures elected 32 members of a 39-seat upper legislative chamber, the Senate. (On 29 November 1999, the remaining seven Senators were constitutionally appointed by Nazarbayev.) The Organization for Security and Cooperation in Europe (OSCE) reported that Kazakh Central Electoral Commission (CEC) officials had improperly blocked some monitoring, and cited reports that other officials had threatened local legislators not to vote for oppositionists.

Elections to Kazakhstan’s lower legislative chamber, the Majlis, took place on 10 October 1999, with 595 candidates and nine parties competing for 77 seats. Ten seats were reserved for a party list vote. Runoffs on 24 October were required for over two-thirds of constituency seats where no one candidate received over 50%. Ten seats were elected by party lists based on the percentage of votes parties received nationally (with a minimum vote threshold for representation of 7%), and the other 67 by single constituency voting. The Kazakh Communist Party (KPK), Otan, the Civic Party, and the Agrarian Party won seats under party list voting. No candidate nominated by a non-communist opposition party gained a party list or single constituency seat. About one-half of the winning deputies ran as independents, though many of them were former government officials who were presumably pro-government. OSCE monitors concluded that the race was “a tentative step” in democratization, but decried interference in the race by officials, biased local electoral commissions, manipulation of results, unfair campaign practices by pro-government parties, and harassment of opposition candidates. Members of the KPK, Republican Party, and Azamat joined in a “Forum of Democratic Forces” that on 27 October

stated that the Senate and Majlis elections were rigged by the government and were invalid. The next elections are due in 2004.

## 14 POLITICAL PARTIES

The constitution permits the formation of registered political parties, but in practice it is difficult to get the necessary legal permissions. Most parties are small, ephemeral, based on personalities, and lack detailed programs. Nine parties and groups participated in the party list part of the October 1999 lower-chamber legislative races, and four passed a 7% vote hurdle to win seats (the Republican People’s Party withdrew from the party list vote after its leader, Akezhen Kazhegeldin, was not registered as a candidate). The nine were Otan (Fatherland), Azamat (Citizen), Alash (Patriot), the People’s Congress, the Civic Party, the Communist Party, the Agrarian Party, the Labor Party, and the Revival Party. The pro-government Otan party bloc won the most seats in the party vote. Others included the Civic Party, Agrarian Party, and the Communist Party (KPK). Otan was formed in early 1999 from several prominent pro-Nazarbayev parties. The Civic Party, formed in 1998, represents state-industrial interests and hails Nazarbayev as its “spiritual father.” Azamat was formed in 1999. Deputy Chair of the party Petr Svoik has called it the “constructive opposition.” The Kazakh Communist Party (KPK), reregistered in July 1994, has advocated some economic re-centralization and anti-Western policies. The People’s Congress, or Social-Democratic Party, has both Kazakh and Russian members and is headed by the Kazakh poet Olzhas Suleymenov. Originally pro-Nazarbayev, the party became increasingly critical of the government after 1993. The nationalist Alash Party has refused to register because of legal requirements that it submit personal information about members to the government. Members of unregistered parties may run for elected office as individuals, but not as party members.

In Uralsk (Western Kazakhstan) and Petropavlovsk (Northern Kazakhstan) there are Cossack *obshchinas*, or communities, agitating for autonomous status. Denied registry by Kazakhstan, many are active in Cossack *obshchinas* across the border in Russia, where Cossacks have the right to maintain military organizations and carry weapons.

## 15 LOCAL GOVERNMENT

Kazakhstan is divided into 14 *oblasts* (provinces); the cities of Almaty, Astana, and Bayqongyr have special administrative status equivalent to that of *oblasts*. The 14 *oblasts* are in turn divided into *rayons* (districts). As of 1999, there were 84 cities, 159 *rayons*, 241 settlements, and 2,049 *auls* (villages). Each *oblast*, *rayon*, and settlement has its own elective assembly, charged with drawing up a budget and supervising local taxation. Cities have local assemblies as well; if large enough, cities are also divided into *rayons*, each with its own assembly. These assemblies are also elected for five-year terms. The number of *oblasts* was reduced from 19 to 14 in 1997 under the government’s consolidation program.

The *oblast* and *rayon* assemblies do not choose the local executives. According to the 1995 constitution, the local executives, known as *glavs* or *akims*, are appointed by the president, upon recommendation by the prime minister. The *akims* serve at the pleasure of the president, and he has the power to annul their decisions. The *akim* appoints the members of his staff, who become the local department heads. There is some discussion of shifting to local election of the regional *akims*.

## 16 JUDICIAL SYSTEM

A new constitution was adopted by referendum in 1995, placing the judiciary under the control of the president and the executive branch. There are local and *oblast* (regional) level courts, and a national-level Supreme Court and Constitutional Council. A special arbitration court hears disputes between state enterprises.

There is also a military court system. Local level courts serve as courts of first instance for less serious crimes such as theft and vandalism. *Oblast* level courts hear more serious criminal cases and also hear cases in rural areas where no local courts have been established. A judgment by a local court may be appealed to the *oblast* level. The Supreme Court hears appeals from the *oblast* courts. The constitution establishes a seven member Constitutional Council to determine the constitutionality of laws adopted by the legislature. It also rules on challenges to elections and referendums and interprets the constitution. The president appoints three of its members, including the chair.

Under constitutional amendments of 1998, the president appoints a chairperson of a Supreme Judicial Council, which nominates judges for the Supreme Court. The Council consists of the chairperson of the Constitutional Council, the chairperson of the Supreme Court, the Prosecutor General, the Minister of Justice, senators, judges, and other persons appointed by the president. The president recommends and the senate (upper legislative chamber) approves these nominees for the Supreme Court. *Oblast* judges (nominated by the Supreme Judicial Council) are appointed by the president. Lower level judges are appointed by the president from a list presented by the Ministry of Justice. The Ministry receives the list from a Qualification Collegium of Justice, composed of deputies from the Majlis (lower legislative chamber), judges, prosecutors, and others appointed by the president). Under legislation approved in 1996, judges serve for life.

The constitution calls for public trials where the defendant has the right to be present, the right to counsel, and the right to call witnesses. There is the presumption of innocence of the accused, and the defendant has the right of appeal. In practice, trials of political oppositionists have been closed, and there is widespread corruption among poorly paid judicial personnel. A new criminal code that took effect in 1998 increases penalties for some crimes but also removed some types of Soviet-era crimes such as parasitism.

Nazarbayev has stated that “the path from totalitarianism to democracy lies through enlightened authoritarianism” but has nonetheless allowed some degree of pluralism. The US State Department concluded in its *Country Reports on Human Rights Practices for 2001* that the Kazakh government respected the human rights of its citizens in some areas, but serious problems remained in others. The government infringed on citizens’ right to change their government. Members of the security forces often beat or otherwise abuse detainees, and there were allegations of arbitrary arrest and detention of political opponents. The government infringed on citizens’ rights to privacy by conducting unlawful monitoring of correspondence and searches of premises. The government increasingly moved against independent media, harassing and monitoring them, and as a consequence, many journalists practiced self-censorship.

## 17 ARMED FORCES

The total armed forces of Kazakhstan are estimated at 60,000, of which approximately 41,000 are estimated to be in the army. Reserves number around 237,000. The army has 650 T-72 battle tanks plus an additional 280 T-62s. There is no navy, and the air force is estimated at 19,000 personnel. There are 164 combat aircraft. The paramilitary consists of 2,000 presidential guards, an estimated 20,000 internal security troops, and an estimated 12,000 border guards. The defense budget in 2001 was \$173 million or 1% of GDP.

## 18 INTERNATIONAL COOPERATION

Kazakhstan was admitted to the UN on 2 March 1992. It is a member of the OSCE, EBRD, ECO, ESCAP, IMF, UNCTAD, and the World Bank. It is applying for membership in other international organizations, including the WTO, and is a member

of the CIS. It has established especially good relations with neighboring Central Asian states and China.

In June 2001, leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan met in China to launch the Shanghai Cooperation Organisation (SCO) and sign an agreement to fight ethnic and religious militancy while promoting trade.

## 19 ECONOMY

The Kazakhstan economy is extremely well-endowed with large tracts of arable land and rich reserves of coal, oil, and rare metals. Animal herding was the mainstay of the nomadic Kazakh population before their incorporation into the Soviet Union; wool production remains an important agricultural product today, along with grains and meat.

Like other countries of the former USSR, Kazakhstan faced serious economic dislocation after 1991, resulting from the disruption of trade with other post-Soviet republics, an end to the flow of official revenues from the Soviet central government, the decline in state production orders, and the need for sudden currency adjustments. Estimated GDP fell by 8.5% in 1991, 14% in 1992, 15.3% in 1993, and 25% in 1994. Overall output is estimated to have shrunk by one-third between 1990–93. Positive if weak growth returned in 1996, when real GDP increased 1.1%, followed by an increase of 1.7% in 1997. Recovery was then arrested briefly by the effects of the Russian financial crisis, as real GDP declined 1.9% in 1998, but growth resumed in 1999 with a rise in real GDP of 2.7%. Economic and fiscal reforms in 1999 and a rise in world energy prices help spur growth to 9.6% in 2000, and to an estimated 12.6% in 2001. Meanwhile significant progress has been made in bringing inflation under control. After independence, inflation reached a staggering 2,000% in 1993, declining to 35% in 1994 and 1995, and to 28.6% in 1996. In 1998, in the recession accompanying the Russian financial crisis, inflation fell to 1.9%. With growth in 1999, inflation grew to 8.3% and 13.2% in 2000. However, prudent monetary policies instituted in 1999 helped reduce inflation to an estimated 6.6% in 2001. Fiscal reforms helped to transform a general government deficit equal to 5% of GDP in 1999 to a surplus equal to 2.9% of GDP in 2001. Registered unemployment was only 3.3% in 2001, although according to US State Department and CIA estimates, actual unemployment ranged between 10% and 30%.

A revitalized energy sector supported by substantial foreign investment has been the main factor in the economy’s strong performance, but economic reforms and good harvests have also been important elements. Privatization legislation adopted since 1992 has promoted the rapid transfer of small shops and services to the private sector, although large-scale privatization has gone much slower. In 1996, the government concluded an agreement for the 1,580-km (990-mi) Caspian Pipeline Consortium (CPC) pipeline to run from the western Tengiz oil field to the Black Sea. The CPC was officially opened 27 November 2001. Foreign investment in Kazakhstan’s oil industry has helped boost production, with prospects of the country becoming one of the world’s largest producers at 2.5 million barrels per day by 2015. Such optimistic predictions rest largely on three major oil and gas fields—Tengiz, Karachaganak, and Kashagan—the last of which was hailed by analysts as the world’s largest oil discovery in 30 years. In January 2001, the president decreed the establishment of the National Fund for the purpose of protecting the economy from the effects of swings in the price of oil and other commodities. In February 2002, the president decreed the formation of a new national energy company, KazMunaiGaz, formed through the merger of Kazakoil, the state oil company, and TransNefteGaz, the state oil and gas transport company. The main purposes of KazMunaiGaz are to ensure a single state

policy on energy issues, and to better compete with foreign energy companies.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Kazakhstan's gross domestic product (GDP) was estimated at \$98.1 billion. The per capita GDP was estimated at \$5,900. The annual growth rate of GDP was estimated at 12.2%. The average inflation rate in 2001 was 8.5%. 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 10% of GDP, industry 30%, and services 60%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$64 million or about \$4 per capita and accounted for approximately 0.3% of GDP. Worker remittances in 2001 totaled \$81.50 million. Foreign aid receipts amounted to about \$10 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 \$1,006. 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 37% of household consumption was spent on food, 20% on fuel, 9% on health care, and 6% on education. The richest 10% of the population accounted for approximately 26.3% of household consumption and the poorest 10% approximately 2.7%. It was estimated that in 2001 about 26% of the population had incomes below the poverty line.

## 21 LABOR

The labor force consisted of some 8.4 million persons in 1999. In 2000 the service sector engaged an estimated 50%, agriculture 20%, with industry accounting for the remaining 30%. The government reported unemployment of 3.3%, but international organizations estimated unemployment in 2001 at 10% or higher.

Although workers are entitled to join or form unions, registration generally is a lengthy and difficult process. The Confederation of Free Trade Unions claimed about 300,000 members in 2002, but that number is considered to be high. Some workers who have joined independent unions are subjected to various forms of harassment, indicating hostility by local authorities and state-sponsored trade unions. Workers are entitled to strike after all conciliation procedures have been exhausted. Employers must be notified 15 days prior to a strike.

The minimum age for employment is 14 but only for part-time work. Children under 18 have legal protections from hazardous work, and those between 14 and 16 years of age may only work with parental permission. As of 2002, the minimum wage was about \$24 per month, which falls below the minimum subsistence amount. The legal maximum workweek is 48 hours, although most enterprises maintain a 40-hour workweek.

## 22 AGRICULTURE

In 1998, Kazakhstan had an estimated 30,135,000 ha (74,464,000 acres) of arable land, representing 11.3% of the total land area. Most cropland is found in the northern steppes, where the failed Virgin and Idle Land Project of the 1950s occurred. Small-scale privatization resulted in the formation of 31,055 private farms by 1995, up from 3,333 in 1991. The average peasant farm size in 1995 was 428 ha (1,058 acres). Between 1990 and 2000, annual agricultural output fell an average of 7.9%.

Potatoes, fruits, and vegetables are other significant food crops. Less than 2% of agricultural land is used to cultivate commercial crops such as cotton, sugar beets, sunflowers, and flax. Kazakhstan is the only former Soviet republic that exports grain. Wheat accounted for 29% of all sown acreage in 1999. Wheat production declined from 18,285,000 tons in 1992 to 11,242,000 tons in 1999. Similarly, barley production fell from 8,511,000 tons to 2,265,000 tons during that time. Rice is produced in irrigated stretches along the Syrdar'ya near Qyzlorda and around Taldyqorghhan in the east. Production amounted to 199,000 tons in 1999.

During the Soviet period, groundwater resources and chemical fertilizers were overused, resulting in depleted soils, decreasing yields, and environmental pollution.

## 23 ANIMAL HUSBANDRY

About 70% of Kazakhstan's total land area is permanent pastureland. In 2001, the livestock population included 19.7 million chickens, 8.4 million sheep, 1.7 million pigs, 976,000 horses, and about one million goats. Total meat production in 2001 amounted to 667,000 tons, of which 43% was beef, 14% mutton and lamb, 27% pork, 5% chicken, and 11% other meat.

Wool is an important animal product; in 2001, 23,600 tons of greasy wool were produced. That year, cow milk production totaled 3,923,000 tons, and 103,000 tons of eggs were laid.

## 24 FISHING

Fisheries are concentrated around the Caspian Sea, and are of some importance to the local economy. The total catch in 2000 was 25,774 tons, all from inland fishing. Freshwater bream and Azov sea sprat were the principal species.

## 25 FORESTRY

Only 4.5% of Kazakhstan is covered by forests and woodlands; forestry is of little commercial importance. Imports of forestry products amounted to nearly \$88 million in 2000.

## 26 MINING

The leading industries in Kazakhstan in 2002 were, in order, oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, phosphates, and sulfur. In 2000, Kazakhstan was the eighth-largest producer of manganese ore in gross weight and ninth in manganese content of ore. Kazakhstan was the CIS's leading producer in chromite, lead, and zinc. The country was also a major producer of beryllium, bismuth, cadmium, chromium, ferroalloys, magnesium, rhenium, titanium, and uranium, and produced significant amounts of arsenic, barite (75% of the former Soviet Union's output), molybdenum, natural gas, phosphate rock, and tungsten. Among other minerals, Kazakhstan produced cobalt, magnesium, nickel, vanadium, and all grades of asbestos, as well as the industrial minerals boron, cement, and kaolin. Kazakhstan had commercial reserves of three ferrous metals, 29 nonferrous metals, two precious metals, 84 types of industrial minerals, and coal, natural gas, and petroleum. The eastern region of Kazakhstan was rich in alumina, arsenic, bauxite, beryllium, bismuth, cadmium, chrome, copper, gold, iron ore, lead-zinc, manganese, molybdenum, rhenium, silver, titanium, and tungsten.

Significant increases were reported in the production of practically all ferrous and nonferrous metals, coal, crude oil, and natural gas. In 2000, Kazakhstan increased practically all its mineral product exports in quantity and value. Ferrous metals accounted for 12.9% of export earnings, second to oil and oil products, which accounted for 52.8%. A large percentage of Kazakhstan's reported exports of copper, ferrous metals, ferroalloys, lead, crude oil, oil products, precious metals, and zinc went to countries outside of the CIS. The largest sources of export earnings from outside the CIS were, in order, oil, oil

products, steel products, including ferroalloys, copper, precious metals, zinc, cotton fiber, alumina, and lead. Kazakhstan also exported substantial quantities of alumina, coal, iron ore, and lead to CIS countries. The mining sector employed 126,000 workers, about 5% of the workforce, and contributed 36% of industrial output in 1999 and 9% of GDP. By comparison, the oil sector in 2000 accounted for 6.1% of GDP.

Output of metals in 2000 included: marketable iron ore, 13.8 million tons, up from 8.7 in 1998, with an annual capacity of 25 million tons; crude manganese ore, 1.2 million tons, up from 400,000 in 1997 (the design capacity of the country's three mining enterprises was 2.55 million tons per year of crude ore, and the reserve base was 600 million tons); chromite, 2.61 million tons, up from 1.19 in 1996; lead, 39,300; mined zinc, 322,100, up from 159,400 in 1996; mined copper, 430,200, up from 250,100 in 1996, due to commissioning of new mines in Karaganda and Zhezkazgan; bauxite, 3.73 million tons; mined gold, 28,171 kg, up from 12,500 in 1996; silver, 927,110, up from 467,700 in 1996; alumina, 1.2 million tons; and mined tin, 218,863 tons, up from 119,643 in 1999.

Copper mining began to recover after foreign companies acquired management rights to the nation's copper producers, most notably the Zhezkazgan complex, which also included concentration, smelting, and refining facilities. Kazakhstan had supplied more than 95% of chromite production for the former USSR through the Donskoy mining and beneficiation complex at Khromtau. Iron ore found near Rudnyy supplied the iron and steel plants in the Russian Urals region as well as plants at Karaganda and Temirtau.

In 2000, the government announced that it intended to sell part of its remaining shares in a number of mining and metallurgical companies. A large percentage of mining and metallurgical enterprises were under the control of foreign managers, who, in exchange for a share of the profits and potential ownership rights, were investing in modernizing the enterprises, increasing output and exports, decreasing costs, and upgrading technology to meet environmental standards. The rapid development of the mining and mineral-processing industries, combined with other factors, resulted in extensive air, water, and soil pollution, natural resource depletion, and the generation of radioactive waste.

## 27 ENERGY AND POWER

Kazakhstan is richly endowed with energy reserves and was the second-largest oil producer among the former Soviet republics. Oil is its most promising energy source for exploitation. Whereas current oil sources are located along the northeastern shore of the Caspian Sea near Aqtau, the enormous Tengiz oil field lies further north along the coast. Kazakhstan's total proven oil reserves at the beginning of 2002 stood at 5.4 billion barrels.

In May 1992, Chevron entered into a joint venture agreement with Kazakhstan to develop the Tengiz oil field which is estimated to contain 6–9 billion barrels of recoverable crude oil reserves. By April 1993, a 40-year agreement was signed, creating the Tengizchevroil joint venture. In 1996, an agreement was reached to build a major oil pipeline to connect the Tengiz oilfield to a Russian port on the Black Sea. The 1,580-km (990-mi), \$2.50-billion Caspian Pipeline Consortium pipeline went into operation in 2001. As of mid-2002 production of oil from Tengiz totaled 250,000 barrels per day. Total oil production in 2001 was 811,000, up from 570,000 barrels per day in 1991.

Some natural gas is also produced as a derivative from oil fields on the shores of the Caspian Sea. Production of natural gas in 2001 totaled 8.9 billion cu m (310 billion cu ft). Hard coal is mined from the Qaranghandy and Ekibastuz basins. Total coal production in 1997 was 80 million tons.

Several hydroelectric projects also operate. The Qapshaghay Dam on the Ile River, north of Almaty, and the Shardara Dam, on

the Syrdar'ya in the extreme south, produce electricity for various industries. In 2001, Kazakhstan's total installed electrical capacity was 17,220,000 kW. Production in 2000 amounted to 48,900 million kWh, of which 86.4% was from fossil fuels and 13.6% from hydropower. Consumption of electricity in 2000 was 48.3 billion kWh.

## 28 INDUSTRY

Before its independence, Kazakhstan's designated manufactures included phosphate fertilizer, rolled metal, radio cables, aircraft wires, train bearings, tractors, and bulldozers. The country also had a well-developed network of factories that produced about 11% of the Soviet Union's military goods. Overwhelmingly dominated by state-owned enterprises under the centrally planned economy, independent Kazakhstan's economy has been substantially, if incompletely, privatized and reoriented to the market economy. Government plans originally called for an almost complete privatization by 2000 through a combination of auctions, the distribution of investment coupons to the public, and case-by-case negotiations for larger enterprises. As of 2001, according to government reports, 71% of the total number of organizations with state participation had been privatized, including 23,170 state-owned enterprises and state stock holdings and state shares in 3,495 organizations.

The process of restructuring its industry has been wrenching, however. Industrial production declined by 13.8% in 1992, by 14.8% in 1993 and by 28.5% in 1994. Decline continued in 1995, but at the single digit rate of 8%. The first positive growth in industrial production after independence was a weak 0.3% improvement in 1996. Privatization moved ahead quickly in that year and into the summer of 1997, a year in which real GDP increased 4%. However, industrial production declined again in 1998—by 2%—due primarily to the combined effects of the Russian financial crisis and a fall in world oil prices. The president, citing the low fuel prices, decreed a halt to further privatization in the country's vital oil and gas sector, and slowed the negotiations on privatization of the remaining large state enterprises called the "Blue Chips." Subsequently, industrial growth resumed at a moderate 3% in 1999, but then at robust double-digit rates of 16% in 2000 and 14% in 2001. For 2002, the estimated growth rate is 9.8%, slightly ahead of overall GDP performance. The share of industrial production fell from 25.9% of GDP in 1994 to 21.8% of GDP in 1995, but had risen to 30% by 2001, according to CIA estimates.

To stimulate recovery, increasingly liberal foreign investment incentives were offered 1991–97. In 1995 Kazakhstan's largest pre-independence operation, the Karaganda Steel Mill (Karmet) was acquired by a London-based company. Pre-independence, Karmet was one of the largest integrated metallurgical complexes in the world, producing coke and chemical products in addition to pig iron, steel, and a wide variety of steel products. In 1995, it was operating at less than half its capacity, workers' wages were often months in arrears, and its installations were being degraded for lack of maintenance. By 2002, about \$800 million had been invested in the renamed Ispat Karmet, and output had risen from 2.1 million tons of rolled steel in 1995 to 3.63 million tons in 2001 (still nearly 40% below pre-independence levels).

Most of Kazakhstan's manufacturing, refining and metallurgy plants are concentrated in the north and northeast, in Semey, Petropavl, and Aktobe. In south-central Kazakhstan, Shymkent is an important center for chemicals, light manufactures, metallurgy, and food processing; Almaty is important for light industry, machine building, and food processing.

The mining industry accounts for over a third of industrial production, three-fourths of which by value is the production of crude oil and associated gas. Fuel production's share in industrial value-added rose from 11% in 1995 to more than 25% in 2000. By contrast, coal and lignite, 96% of which is produced in

Pavlodar and Karaganda oblasts, and iron ore mining, have experienced steady declines since 1991, and each currently accounts for less than 2% of industrial production.

Manufacturing accounts for about half of industrial production. By value the biggest manufacturing category is the processing of agricultural products, accounting for almost 17% of industrial production. Second is the production of nonferrous metals, at about 13% of the total. Textiles and leather manufacturing is served by inputs of wool and other material from the country's own livestock as well as imports of cotton from other parts of the former USSR. Textiles and related products make up an estimated 8% of total industrial output.

Almost 7% of industrial output (14% of manufactures) is accounted for by ferrous metallurgy. Production includes bulldozers, excavators, and metal-cutting equipment.

Kazakhstan's total oil refining capacity in 2002, according to the US Department of Energy, was about 427,000 barrels per day. There are three refineries: one in the north (at Pavlodar), one in the west (at Atyrau), and one in the south (at Shymkent). In early 2002, the refineries were working at about one-third capacity, averaging about 143,388 barrels per day. Refinery products account for about 4% of total production. Smaller contributions are made by mechanical engineering (2.4%) and the chemical industry (1.2%).

The production and distribution of power accounts for about 13.5% of industrial production.

## 29 SCIENCE AND TECHNOLOGY

The Kazakhstan Academy of Sciences, founded in 1946 in Almaty, has departments of physical and mathematical sciences, earth sciences, chemical-technological sciences, and biological sciences. Kazakhstan in 1996 had 47 research institutes concerned with agriculture and veterinary science, medicine, natural sciences, and technology. There is a botanical garden in Almaty. Scientific training is available at two universities and 25 higher educational institutes. In 1987–97, science and engineering students accounted for 20% of college and university enrollments.

## 30 DOMESTIC TRADE

The wholesale and retail sector, previously dominated by state-controlled distribution channels, has seen the dynamic growth of independent small shops and traders. Price controls have been lifted for 90% of consumer and 80% of wholesale prices, although basic goods and services such as bread, flour, baby food, medicines, fodder, housing rents, utilities, and public transportation have been excluded from liberalization. A 16% value added tax applies to most goods and services.

The country sponsors a number of trade exhibitions through the year, including The Kazakhstan Oil and Gas Exhibition, held in Almaty every October, and a Consumer Expo in April.

## 31 FOREIGN TRADE

In 1990, about 89% of Kazakhstan's exports and 88% of its imports represented trade with other former Soviet republics (at foreign trade prices). A serious disruption in the country's trading patterns occurred as the input procurement system within the Soviet centrally planned economy disintegrated, the uses of hard currency and world market-determined transaction prices were adopted by former USSR republics, and export demand from Eastern European countries shrank in the early 1990s. To facilitate adjustment to these hard new realities, the government decreed key trade liberalization measures in early 1992, ending export license requirements. With liberalization, exports and imports increased substantially through the 1990s.

Exports are dominated by petroleum products, followed by nonferrous and ferrous metals—a pattern likely to continue for

some time to come. Kazakhstan's largest imports were machinery and oil and gas products.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	1,782	2,459	-677
Bermuda	1,358	n.a.	n.a.
Italy	892	155	737
China (inc. Hong Kong)	669	154	515
Germany	566	334	232
Ukraine	269	80	189
United Kingdom	231	219	12
United States	211	277	-66
Uzbekistan	139	73	66
Turkey	64	143	-79

## 32 BALANCE OF PAYMENTS

Strong exports of oil and minerals created trade surpluses in the early 2000s. Large amounts of foreign direct investment have also aided the country's balance of payments situation. Kazakhstan floated its currency, the tenge, in 1999, resulting in a devaluation. Subsequently, exports recovered and there was a fall in imports, and the currency stabilized against the dollar.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Kazakhstan's exports was \$10.5 billion while imports totaled \$8.2 billion resulting in a trade surplus of \$2.3 billion.

The International Monetary Fund (IMF) reports that in 2001 Kazakhstan had exports of goods totaling \$9.1 billion and imports totaling \$8.3 billion. The services credit totaled \$1.27 billion and debit \$2.61 billion. The following table summarizes Kazakhstan's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,416</b>
Balance on goods	809
Balance on services	-1,339
Balance on income	-1,115
Current transfers	230
<b>Capital Account</b>	<b>-197</b>
<b>Financial Account</b>	<b>2,717</b>
Direct investment abroad	-16
Direct investment in Kazakhstan	2,763
Portfolio investment assets	-1,354
Portfolio investment liabilities	32
Other investment assets	515
Other investment liabilities	778
<b>Net Errors and Omissions</b>	<b>-720</b>
<b>Reserves and Related Items</b>	<b>-385</b>

## 33 BANKING AND SECURITIES

In December 1990, the Almaty branch of Gosbank (the former Soviet State Bank) was made into the Independent Kazakh (National Bank of Kazakhstan-NBK). In the next year the existence of private and public financial institutions were legalized. In 1993, the parliament approved a new banking law that separated the National Bank of Kazakhstan from the government, and gave the central bank the power to conduct monetary and credit policies and regulate the commercial banking sector. Before November 1993, monetary and credit policy was under the control of two central banks, the Russian Central Bank (RCB), which also acted as the ruble zone's central bank, and the NBK. Until November 1993, the currency unit in the country was the ruble. On 15 November 1993, Kazakhstan established its own currency, the tenge.

In 1995 the NBK continued the tight monetary stance it adopted in 1994, becoming increasingly sophisticated in its monetary operations.

The NBK admits that corporate governance and management in banks is weak: Kazakhstan's banks tend to be very small, concentrated in Almaty, and more interested in dealing in treasury bills than in providing long-term credits to lenders. As of 2003, there was no deposit insurance scheme in operation. Organized crime is also a problem for many banks, with security therefore assuming a considerable cost.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.8 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 9%. The reform of the banking sector was initially set up according to a two-tier system, with the central bank occupying the top tier and specialized, sector-oriented banks occupying the second tier. Among these specialized banks are Narodny Bank (for savings); Kazakhstan Bank (for industry and agriculture); Turan Bank (for the construction sector); Kredsotsbank (for housing and municipal services); and Agroprombank (for agriculture).

In 2002, there were 47 commercial banks, including one state bank (3% of total financial sector assets), one intergovernmental bank, 16 banks with foreign participation, and 12 foreign representative offices. In 2001, total bank assets reached \$3.82 billion.

The Kazakhstan Stock Exchange and the Central Asian Stock Exchange both operate in Kazakhstan.

### 34 INSURANCE

Approximately 73 insurance companies were registered in 1999.

### 35 PUBLIC FINANCE

Kazakhstan has one of the fastest growing economies in the world, thanks almost entirely to high world oil prices. GDP grew 9.6% in 2000, 13.2% in 2001, and 9.5% in 2002. The surge has been extremely helpful in ridding the government deficit. In 1999, the deficit was equivalent to 3.5% of GDP; by 2001 the government ran a primary surplus of 1.9% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 2001 Kazakhstan's central government took in revenues of approximately \$4.2 billion and had expenditures of \$5.1 billion. Overall, the government registered a deficit of approximately \$900 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.

REVENUE AND GRANTS	100.0%	4,200
Tax revenue	65.6%	2,755
Non-tax revenue	12.3%	515
Capital revenue	4.5%	190
Grants	17.6%	740
EXPENDITURES	100.0%	5,100
General public services	7.5%	381
Defense	5.6%	287
Public order and safety	10.5%	536
Education	4.2%	213
Health	2.9%	149
Social security	32.8%	1,674
Recreation, cultural, and religious affairs	1.2%	63
Economic affairs and services	17.9%	915
Other expenditures	9.5%	485
Interest payments	7.8%	398

### 36 TAXATION

In January 2002 a new Tax Code went into effect. The new code, seen by tax experts as a model of equity, economic neutrality and simplicity (on its face, if not in its implementation), replaced the 1995 Tax Code that had been criticized for leaving too much discretion in the hands of the Tax Police and other government officials. The new code also reduced a number of tax rates. Under it, the personal income tax (PIT) ranges from 5% to a top rate of 30%, down from 40%, while the corporate income tax (CIT) rate remains set at 30%. Social taxes (payroll taxes) were reduced to 11% from 21% and the rate for the value-added tax (VAT), introduced 1 January 1992, was reduced to 16% from 20%.

In January 2003, a new investment law was introduced that generally eliminates tax incentives for foreign investors.

### 37 CUSTOMS AND DUTIES

In Kazakhstan, licenses are required to import certain products and the importation of others is prohibited. An import tariff schedule eliminated duties for most consumer goods in April 1994. There are no longer any export tariffs. However, tariffs have increased on certain products, including alcoholic beverages, leather, and carpets. The average tariff is 9%. There is also a 16% value-added tax (VAT) on destination principal. Kazakhstan, Belarus, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan have formed a customs union. In May 1992, the Republic of Kazakhstan and the United States signed a most-favored nation agreement for reciprocal tariff treatment.

### 38 FOREIGN INVESTMENT

Even before its formal independence, the government adopted the Foreign Investment Law of 1991 that allowed investment by foreign companies in any economic activity except the manufacture of military goods. The law contained provisions for duty-free imports as well as tax breaks for firms with foreign investment, especially those involved in producing consumer goods, agricultural goods, and electronic and medical equipment. Further, the law also laid out provisions for the operation of Special Economic Zones (SEZs) where imports of intermediate products and exports of finished goods would be allowed without customs duties.

The regime was subsequently revised in a new Foreign Investment Law in 1994 (amended in 1997) to provide stronger guarantees against changes in Kazakhstan's legislation, greater clarity on investment requirements and on the credit facilities available to foreign investors, some additional customs exemptions, and a guarantee of the right to recourse to international arbitration to settle disputes.

From August to November 1996, the government pursued a vigorous privatization program. In 1997, a new law enabled investors to qualify for up to 100% tax relief for five years, and for up to 50% tax relief for the second five years. Priority areas were infrastructure, manufactures, housing, construction in Astana (designated the new capital as of December 1997), and agriculture. Following the recession in 1998, in 1999 the government began to change its stance on foreign investment from favorable treatment to national treatment. In January 2001, the government passed laws to control the transfer of capital out of the country. Foreign investors expressed concern over the increased authority given customs officials to regulate export and import transactions.

In 2001 the government moved to enact a new investment law to replace the 1994 and 1997 regulations. Because of strong opposition from foreign investors, the president did not sign the new law until January 2003. The new code, unlike the previous law, offers fewer protections to foreign investors and limits exemptions from customs fees to one year, with extensions limited to no more than five years. Particularly contentious was

the removal of the right to international arbitration to settle disputes. (When the law took effect, there were at least two major disputes pending involving ChevronTexaco, Kazakhstan's largest single investor and the largest single tax payer. In November 2002, as a direct protest against the government's intention to change the investment regime, the foreign companies involved in the Tengchevoil (TCO) consortium (including ChevronTexaco with a 50% share and ExxonMobil with a 25% share) put on hold the second stage of \$3 billion expansion plan for the Tengiv oil field.

In 1996, foreign direct investment (FDI) was estimated at \$1.22 billion, and at \$1.3 billion in 1997. FDI flows fell slightly to \$1.2 billion in 1998, or from 9.4% of GDP to 5.7% of GDP. In 1999, FDI flow rose to almost \$1.8 billion, and then soared to \$2.75 billion in 2000, or from 11.4% of GDP to 15% of GDP. From 1993 to 2001, total gross inflow of FDI amounted to about \$17 billion. Over a third (34% or \$5.2 billion) of the FDI flow has come from the United States, with United Kingdom (including the British Virgin Islands) the second-largest source at \$2.3 billion or more than 15%. Other major sources of FDI are South Korea, China, Italy, Turkey, Japan, and Germany.

Since 1995, FDI in the development of the country's immense oil and gas deposits has averaged more the \$1 billion, and was close to \$2 billion in 2001. As of October 2001, there were 3,606 joint ventures and 2,030 foreign companies operating in Kazakhstan according its Ministry of Economy and Trade. Important non-oil sector projects include the expansion of gold production in partnership with foreign concerns promoted as a means of quickly boosting the inflow of foreign exchange. In 1993, the Philip Morris Co. signed an agreement with the Almaty Tobacco Company to invest \$350 million; since 1994, Philip Morris has been producing cigarettes for the domestic market. RJR Nabisco has also invested more than \$100 million in a joint venture.

### 39 ECONOMIC DEVELOPMENT

While still a republic of the USSR (prior to independence in 1991), Kazakhstan underwent rapid development of its agricultural and industrial sectors. Vast tracts of land were brought into cultivation with the expansion of irrigation under the USSR's "Virgin Lands" program, while within the industrial sector, development of its metallurgical, mining, and machinery industries were prioritized. Growth in these various economic sectors was fueled by a high labor-force-participation rate in the local population, especially among women, as well as the import of some skilled labor from Russia. By the 1980s, growing problems of inefficiency and inadequate technological development in the overwhelmingly dominant state sector resulted in a flagging rate of growth overall.

The region's industrial and agricultural development had, moreover, come at some high environmental costs. The structure of Kazakhstan's transportation and energy sectors clearly highlight the overall orientation of the economic base fostered under the Soviet regime; railroads and paved roads are clustered mainly in the north and the south, serving more to link Kazakhstan with Russia, Uzbekistan, and Kyrgyzstan than to integrate the republic itself. Similarly, electricity transmission networks facilitate the exchange of energy with different republics in the former USSR rather than between different parts of Kazakhstan.

Since sovereignty was declared in December 1991, Kazakhstan has been embarked on a process of economic restructuring aimed at establishing a market economy. In 2002, President Nazarbayev reported that Kazakhstan was recognized by both the EU and the United States as a market economy, and that 75% of the country's GDP was derived from the private sector. This transformation, substantial if incomplete, involved reform on many fronts: privatization; lifting of price, capital, and

profitability controls; the elimination of subsidies; debt restructuring; tax, customs, and banking reform; creation of a securities and exchange commission; and trade and investment liberalization. The government made several policy changes in the late 1990s and early 2000s that left outside investors and auditors uncertain about the direction and stability of the economic regime.

Independent Kazakhstan appealed to numerous international agencies for assistance in restructuring its economy. The World Bank's aid program comprised both policy-based adjustment loans and investment projects in areas that included agriculture, energy, environment, finance, health, legal reform, roads, social protection, taxation, urban transport, and water supply and sanitation. The European Bank of Reconstruction and Development (EBRD) supported both private sector development and public sector projects such as ports, power, railways, and telecommunications. Technical assistance for enterprise and civil service reforms, food production and distribution, and human development have been provided by other UN agencies and the EU. The Islamic Development Bank (IDB) was active in the areas of health, transport, postal service, and water supply. Japan, the largest bilateral donor, provided significant balance-of-payments support and extended loans for the Astrana airport and the transport infrastructure. The United States provided assistance for privatization, tax and pension reforms, and social services. Other bilateral donors are Germany, Saudi Arabia, and Turkey.

In 1993, the government negotiated a far-reaching major contract to explore and develop the Tengiz oil field. Through mergers, acquisitions and sales, the shareholders in this venture as of 2003 were ChevronTexaco (50%), Exxon Mobil (25%), KazMunaiGas (20%, down from 45% from sales of 25% to Mobil, now ExxonMobil), and LukArco (5%).

In 2000, the Philip Morris Co. completed a \$200 million greenfield cigarette factory in the Almaty region.

In seeking to achieve monetary stability, Kazakhstan in 1995 and 1996 entered into credit agreements with the IMF. In 1996 the president established a secret National Fund, into which he deposited the proceeds from the sale of shares in the Tengiz oil field. The existence of the National Fund was not revealed until 2001, and by 2002 most of the original \$1 billion had reportedly been used in two major withdrawals—\$480 million had been used in 1997 to pay off pension funds threatened with bankruptcy, and \$400 million had been used in 1998 to cover budget deficits stemming from the collapse of the Russian ruble. While the secret fund seems to have cushioned the economy from external shocks, its existence raised serious questions about the transparency of the government's finances.

The government emerged from the financial crises of the late 1990s less committed to privatization and ready to dismantle some of its incentives for foreign investment. In 1999, the government halted or slowed privatization programs. There was also a shift in monetary policy. In February 2002 the government took another major step away from privatizing the oil and gas sector by announcing the establishment of a national energy conglomerate, KazMunaiGaz, combining the national oil company with the national oil and gas transport company for the stated purpose of being able to compete with the international oil companies. In late 2002, agreement was reached among Azerbaijan, Georgia, Turkey, Turkmenistan, and Kazakhstan on the route for the Baku-Tbilisi-Ceyhan (BTC) pipeline, and construction began in May 2003.

### 40 SOCIAL DEVELOPMENT

Social security programs were first introduced in 1956, and were revised in 1991 and 1996 following independence. All employed persons, including noncitizens, qualify for old age, disability, and survivorship pensions. Employers contribute 30% of payroll, while employees contribute 1% of earnings. Residents of



ecological disaster areas are entitled to early retirement. Workers' compensation is offered under a dual social insurance and universal system. The economic and financial crisis in the mid to late 1990s, however, has meant that the government is often unable to pay pensions or other forms of benefits owed to citizens.

Women have equal rights under the law, although discrimination persists. Women generally have access to higher education but are still channeled into mostly low-level, low-paid jobs. Traditional attitudes towards women are a barrier to achieving an active role in politics or business. Violence against women and domestic abuse remain a problem and are vastly underreported. There are about 30 women's rights organizations, including the Union of Women of Kazakhstan, the Union of Women Entrepreneurs, the League of Muslim Women, and the Union of Feminists. Most women's groups work to obtain support for families and increase women's participation in public life. The government has signed the UN Convention in children's rights. The constitution provides for the upkeep and education of orphans, although limited financial resources result in many children receiving inadequate education and medical care.

Ethnic tensions between Kazakhs and Russians continue to exist. Ethnic Kazakhs receive preferential treatment in housing, education, and employment. Although the Russian language still predominates, the 1995 Constitution specifies that Kazakh is the official state language. The government is responsible for numerous violations of democratic freedoms and human rights. Prisoners are beaten and tortured, and killings are committed by security forces. A top political opposition leader was jailed for a year for insulting the president, then barred from running for parliament because he had served time in prison.

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

Under restructuring of the health care system, roughly half of Kazakhstan's hospitals, mainly facilities in rural areas, were closed between 1990 and 1997 and the number of acute-care hospital beds was decreased by 44%. As of 1999, the rural health care network, which had deteriorated due to lack of funds, was in the midst of reorganization. As of 1999, there were an estimated 3.5 physicians and 8.5 hospital beds per 1,000 people. As of 1999 total health care expenditure was estimated at 5.5% of GDP.

The average life expectancy in 2000 was 65 years. The total fertility rate was two children per woman during her childbearing years, and the infant mortality rate was 21 per 1,000 live births. For every 100,000 live births, 70 women died during pregnancy or in childbirth in 1998. More than half of married women ages 15–49 (66%) used some form of contraceptive as of 2000. The crude birth rate as of 2002 was estimated at 17.8 per 1,000 inhabitants. Major causes of death per 100,000 people in 1990 were communicable diseases and maternal/perinatal causes, 86; noncommunicable diseases, 700; and injuries, 103. There were 130 reported cases of tuberculosis per 100,000 people in 1999. In 1990–94, immunization rates for children up to one year old were: tuberculosis, 87%; diphtheria, pertussis, and tetanus, 80%; polio, 75%; and measles, 72%. As of 1999, figures for DPT and measles were, respectively, 98% and 99%. A majority (67%) of children under five suffer from some form of anemia (1995).

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 0.04 per 100 adults. Major environmental health concerns include industrial pollution in the east, the former nuclear facilities in the Semipalatinsk region, and ecological threats in the Aral Sea region.

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

As of 1 January 1994, 458,700 households were on waiting lists for housing in urban areas. In 2000, there were about 10,500 new housing units built. About 91% of the population had access to improved water sources and 99% had access to improved sanitation systems.

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

In 1999, the adult literacy rate was estimated at 98.4% (males, 99.1%; females, 97.7%). Both at the primary and secondary level, education is free and state funded. Although Russian is the most commonly taught language, Kazakh, which is the official state language, is now gaining popularity and is being extended to all areas. A small percentage of students are also taught Uzbek, Uighur, and Tajik. As of 1999, public expenditure on education was estimated at 4.4% of GDP.

In 1997 there were 1,342,035 primary school students. Secondary schools enrolled 1,921,302 students and employed approximately 178,900 teachers in the same year. The pupil-teacher ratio at the primary level was 18 to 1 in 1995. There are 55 institutions of higher education and three universities. Third level educational institutes had a total of 260,043 pupils in 1996. The University of Kazak Al-Farabi State University was founded in 1934 and offers history, philosophy, economics, sociology, journalism, mathematics, physics, chemistry, biology, and geography. The Karaganda State University was founded in 1972 and teaches philosophy, economics, law, history, mathematics, physics, chemistry, and biology. The Technical University at Karaganda Metallurgical Combine was founded in 1964 and has faculties of metallurgy, mechanics and technology, and chemical technology.

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

Three outstanding libraries are the National Library of the Republic of Kazakhstan in Almaty (5.5 million volumes), the Scientific and Technical Library of Kazakhstan also in Almaty (22.3 million volumes), and the Central Library of the Kazak Academy of Science (6.2 million volumes). The Al-Farabi Kazak State University Library in Almaty has 1.5 million volumes. Kazakhstan has an extensive public library system, with 8,770 branches holding more than 100 million volumes as of 1993.

Kazakhstan has dozens of museums. The Central State Museum of Kazakhstan in Almaty features 90,000 exhibits exploring the history and physical conditions of the region. The A. Kasteyer Kazak State Art Museum (formerly the Kazak T.G. Shevchenko State Art Gallery) in Almaty primarily contains works of Russian and Kazak artists from the 15th to 20th centuries. There are regional and general interest museums throughout the country.

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

As of 2001, there were 1.92 million mainline phones, with an additional 400,000 cellular phones in use nationwide. Kazakhstan is connected to the other former Soviet republics by land line or microwave and to other countries through Moscow.

Kazak Radio broadcasts in Kazak, Russian, Uighur, German, and Korean. Kazak Television, established in 1959, broadcasts in the same languages except for Korean. In 1998, there were 60 AM and 17 FM radio stations. As of 2001, the five government-owned television channels are the only ones which broadcast nationwide. There were 30 independent television stations the same year. In 2000, there were 422 radios and 241 television sets for every 1,000 people. In 2001, there were ten Internet service providers serving about 85,000 subscribers.

Leading newspapers in 2002 included *Kazakhstanskaya Pravda* (Kazakhstan Truth), *Didar Kazakhstan*, *Khalyk Kenesi* (Councils of People), *Leninshil Zhas* (Leninist Youth),

*Leninskaya Smena (Leninist Rising Generation)*, and *Yegemen Kazakhstan (Sovereign Kazakhstan)*.

The constitution and 1991 Press Law provide for a free press, although in practice the media is said to perform self-censorship in key subject areas, especially criticism of the president and other government officials.

#### 46 ORGANIZATIONS

The major economic organizations in Kazakhstan are the Union of the Chambers of Commerce Industry of the Republic of Kazakhstan and the Union of Cooperative Entrepreneurs. The Zhardem International Charitable Fund promotes public interest in science and culture and operates cultural and educational centers for children and teenagers. The Republican Council of Women's Organizations, established in 1985, promotes economic and social equality for women. National youth organizations include the Association of Young Leaders, Kazakhstan Youth Forum, and the Union of Youth of Kazakhstan. As of 2003, the Red Cross Society was in formative stages within the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

Kazakhstan offers a wide variety of natural landscapes to the hardier traveler, ranging from forests and mountain ranges to the vast steppes where Kazakh nomads live in tents called yurts and race thoroughbred horses and camels. The old capital, Almaty (Kazakh for "mountain of apples"), has no historic attractions but is an attractive city where tree-lined streets, parks, fountains, and canals give it a European flavor. In the winter, ice skating is popular on its waterways. Air service to Kazakhstan is good, with direct flights to Almaty from Ankara, Frankfurt, Hamburg, and other cities, as well as frequent daily flights from Moscow. Kazakhstan is open to both business travelers and tourists. Visas are required by all visitors and are obtainable upon arrival or through embassies abroad and companies that sell package tours of Central Asia. The principal accommodations are hotels that formerly belonged to the Soviet Intourist system. However, foreign chains are currently developing a number of projects in Central Asia.

In 2000, there were approximately 1,680,000 foreign visitors to Kazakhstan. Tourist receipts reached about \$356 million. According to 2001 US Department of State estimates, the daily estimated cost of staying in Almaty was about \$264. In Astana, expenses averaged \$265 per day, while stays in other parts of the country were about \$112 per day.

#### 48 FAMOUS KAZAKS

Nursultan A. Nazarbayev (b.1940) was elected president of Kazakhstan in December 1991. Sergey Tereshchenko and Akezhan Kazhegeldin have each served as prime minister since independence in 1991. Abay Ibragin Kunanbayev (1845-1904) is internationally known as a 19th century humanist and poet, and is considered the founder of modern Kazakh literature. Contemporary writer Mukhtar Awezov wrote *Abay*, a novel about steppe life that was translated into English. The novelist Kaltay Muhamedjanov is from Kazakhstan.

#### 49 DEPENDENCIES

Kazakhstan has no territories or colonies.

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# KIRIBATI

Republic of Kiribati

**CAPITAL:** Tarawa

**FLAG:** Above a blue and white heraldic representation of Pacific waters, a golden sun rises against a red background, with a golden frigate bird at the top.

**ANTHEM:** *Troika kain Kiribati (Stand Kiribati)*.

**MONETARY UNIT:** The Australian dollar is the national currency. A\$1 = US\$0.6173 (or US\$1 = A\$1.62) as of May 2003.

**WEIGHTS AND MEASURES:** Kiribati is in transition from imperial to metric standards.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 12 July; Youth Day, 4 August; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays include Good Friday, Easter Monday, Queen's Birthday (June), Bank Holiday (August), and Prince of Wales's Birthday (November).

**TIME:** Midnight = noon GMT.

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

Kiribati (pronounced "Kiribass") consists of 33 islands in the central Pacific, situated around the point where the International Date Line intersects the equator. Scattered over more than 5 million sq km (2 million sq mi) of ocean are the 17 islands of the Gilberts group (including Banaba, formerly Ocean Island); the 8 Line Islands (including Christmas Island); and the 8 Phoenix Islands. The distance between Christmas Island in the E and Banaba in the W is more than 3,200 km (2,000 mi). Kiribati's total land area is 811 sq km (313 sq mi), and its total coastline is 1,143 km (710 mi). Comparatively, the area occupied by Kiribati is about the same as four times the size of Washington, D.C.

Kiribati's capital city, Tarawa, is located on the island of Tarawa.

## <sup>2</sup>TOPOGRAPHY

With the exception of Banaba, an upthrust coral formation that reaches a high point of 265 m (868 ft), the islands are coral atolls built on a submerged volcanic chain and seldom rise more than 4 m (13 ft) above sea level. Christmas Island is the largest atoll in the world, with an area of 606 sq km (234 sq mi). In most of the atolls the reef encloses a lagoon, on the eastern side of which is a narrow stretch of land varying in length from about 45 m (150 ft) to 80 km (50 mi).

## <sup>3</sup>CLIMATE

Tempered by prevailing easterly trade winds, the islands have a maritime equatorial climate, with high humidity during the November–April rainy season. Although the islands lie outside the tropical hurricane belt, there are occasional gales and even tornadoes. Rainfall varies from an average of 102 cm (40 in) near the equator to 305 cm (120 in) in the extreme north and south. Severe droughts can also occur. On average, there is less than 1% variation between the cool and hot months, but daily temperatures range from 25°C (77°F) to 32°C (90°F), with an annual mean temperature of 27°C (81°F).

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

The extreme poverty of the soil and the variability of the rainfall make cultivation of most crops impossible. Only babai (a kind of taro root), coconut palms, and pandanus trees grow easily on most islands. Pigs and poultry were probably introduced by Europeans. Sea life abounds.

## <sup>5</sup>ENVIRONMENT

According to the United Nations Report for Pacific Island Developing Countries (1992), the most significant environmental problems facing the nations in this area of the world are global warming and the rise of sea levels. Variations in the level of the sea may damage forests and agricultural areas and contaminate fresh water supplies with salt water. A rise in sea level by even two feet (60 cm) would leave Kiribati uninhabitable; in 1996, such a rise was forecast as a possibility by 2100. Kiribati, along with the other nations in the area, is vulnerable to earthquakes and volcanic activity. The nation also has inadequate facilities for handling solid waste, which has been a major environmental concern since 1992, particularly in the larger population centers.

The environment in Kiribati has also been adversely affected by metals and chemicals from mining activities, and agricultural chemicals have polluted coastal waters. Phosphate mining was especially devastating, rendering the island of Banaba almost uninhabitable. The Banabans, who were forced to move to the Fijian island of Rabi, sued the owners of the mines and have won special compensation. A fund was also set up to compensate the people of Kiribati. Called the Phosphate Revenue Equalization Fund (PREF), in 1996 it amounted to A\$200 million.

The lagoon of the south Tarawa atoll has been heavily polluted by solid waste disposal. Like other Pacific islands, Kiribati is sensitive to the dangers of pollution and radiation from weapons tests and nuclear waste disposal. The UN Report describes the wildlife in these areas as "among the most critically threatened in the world." Endangered or extinct species include the green sea turtle and mukojima bonin honeyeater.

Kiribati is a party to the Biodiversity, Endangered Species, Marine Dumping, and the Ozone Layer Protection international agreements.

## 6 POPULATION

The population of Kiribati in 2003 was estimated by the United Nations at 96,000, which placed it as number 179 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 42% 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 1.41%, with the projected population for the year 2015 at 102,000. The population density in 2002 was 130 per sq km (337 per sq mi). The population is unevenly distributed; some islands of the Phoenix and Line groups are uninhabited.

It was estimated by the Population Reference Bureau that 39% of the population lived in urban areas in 2001. The capital city, Tarawa, had a population of 32,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 2.6%.

## 7 MIGRATION

For the islanders, migration has been a perennial form of escape from drought and starvation. In the 19th century, recruiting ships forcibly took Gilbert Islanders for plantation work in Hawaii, Australia, Fiji, and Peru; some voluntarily reenlisted after the great drought of 1870. Although the majority eventually returned home, it is reckoned that between 1860 and 1890 some 10,000 islanders of a total population of 30,000 were overseas. In the 20th century, Fiji and the Solomon Islands continued to be popular places for Gilbert Islanders in search of work. Internal migration was mainly to Banaba Island for work in the phosphate industry until 1979, and since then to Nauru or to copra plantations in the Line Islands. During 1988–93, 4,700 people were resettled on Teraira and Tabuaeran atolls of the Line Islands because of overcrowding on the main island group. In 1999 the net migration rate was -0.77 migrants per 1,000 population. The total number of migrants in 2000 was 2,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

About 99% of the people are Gilbertese of Micronesian extraction. Polynesians (mainly from Tuvalu) make up 0.5% of the total; Europeans and people of mixed races, 0.6%.

## 9 LANGUAGES

The principal languages spoken are Gilbertese (also called Kiribatese) and English. The official language is English, but it is seldom used on the outer islands. Gilbertese is an Austronesian language related to many other Pacific tongues.

## 10 RELIGIONS

Christian missionaries first arrived in 1857, when Dr. Hiram Bingham, of the American Board of Foreign Missionaries, began to spread Protestantism in the northern Gilberts with the help of Hawaiian pastors. In 1888, Catholicism was introduced to the islands by the Sacred Heart Mission. The American Board withdrew from the territory in 1917 and was succeeded by the London Missionary Society, which had placed Samoan pastors on the islands as early as 1870.

Virtually the entire population is Christian. According to 2002 government statistics, 55% of the population are Roman Catholics and 37% belong to the Kiribati Protestant Church (formerly called the Congregational Church). Religious minorities include the Seventh-Day Adventists, the Church of God, Assemblies of God, Mormons, and Baha'is.

## 11 TRANSPORTATION

The remoteness of the scattered islands has severely hampered transport and communications. There are only about 670 km (416 mi) of roads, mostly on Tarawa. The Nippon Causeway, completed in 1987 with Japanese assistance, has replaced ferry service between Betio and Bariki. A series of similar causeways links north and south Tarawa. In 1995, there were about 2,000 vehicles in Kiribati, almost three-quarters of which were motorcycles.

There is no rail, river, or lake transport, although canoes travel freely on the lagoons. The main ports are Betio islet, near Tarawa, and on Tabuaeran and Christmas islands. Betio is equipped for handling containers, and Banaba has a cantilever for phosphate loading. In 2001 Kiribati had 1 passenger-cargo ship at 1,291 GRT. A number of shipping lines call at the islands, and government boats provide interisland service. There were 21 airports in 2001, 4 with paved runways. All the major islands have airstrips; the airports on Christmas Island and at Bonriki (Tarawa) are used for scheduled overseas flights. Air Tungaru, the national airline, operates regularly scheduled flights to Honolulu and Tuvalu. In 1997, 28,000 passengers were carried on scheduled domestic and international flights.

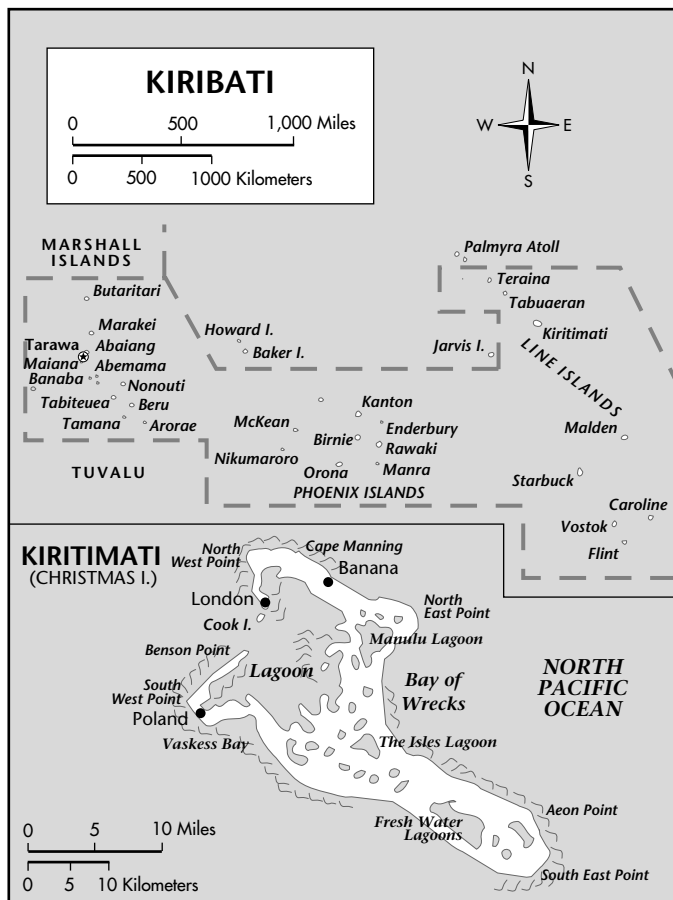
## 12 HISTORY

The main wave of Micronesian settlement is thought to have come from Samoa in the 13th century, but Gilbertese tradition suggests that the Samoans were not the first settlers. European discovery dates from 1537, when Christmas Island was sighted by Spanish explorers. The English sea captain James Cook encountered the islands in 1777, and commercial activities in the region began early in the 19th century. The Gilbert Islands were a favorite whaling ground, and deserting crews began to settle in the islands in the 1830s. Trading ships were calling there regularly by the 1850s, and a flourishing copra and coconut trade was established by the 1860s, as well as an illicit human traffic. The Office of British High Commissioner to the Western Pacific was created in 1877 to help suppress abuses by recruiting ships seeking labor for overseas service. In 1888, Christmas, Fanning (now Tabuaeran), and Washington (now Teraina) islands were annexed by the British, and Phoenix Island was placed under their protection. A declaration of a British protectorate over the Gilbert and Ellice groups followed in 1892. A handful of administrators established local native governments, and a period of stability ensued.

Ocean Island was annexed by Britain in 1900, following Sir Albert Ellis's discovery of its valuable phosphate deposits. The Gilbert and Ellice groups (including Ocean, Fanning, and Washington islands) were declared a British colony in 1916. British control was extended to Christmas Island in 1919 and to the uninhabited Phoenix group in 1937, but after the United States laid claim to Canton and Enderbury, a joint British-American administration over these islands was established. During World War II, the Gilberts were occupied by Japanese forces until 1943, when the invaders were driven out by US forces, after heavy casualties on both sides. Ocean Island was liberated by the Australians in 1945.

In a 1974 referendum, the Ellice Islands voted for separation, subsequently becoming the independent nation of Tuvalu. Internal self-government for the Gilberts was established as of 1 January 1977, and the islands became the independent Republic of Kiribati on 12 July 1979. In September, the new nation signed a treaty of friendship with the United States (ratified by the US Senate in 1983), by which the United States relinquished its claims to the Line and Phoenix groups (including Canton, Enderbury, and Malden).

Jeremia Tabai, chief minister at the time of independence, became president of the new republic in 1979 and was reelected



LOCATION: 4°N to 3°S; 168° to 176° E. TOTAL COASTLINE: 1,143 kilometers (710 miles). TERRITORIAL SEA LIMIT: 12 miles.

in May 1982 and February 1983. Although the constitution limits a president to three terms, Tabai argued that he had not completed three full terms and was reelected in May 1987. In 1991, Tabai stepped down and was replaced by Teatao Teannaki, head of the National Progressive Party. Teannaki served until 1994, when Teburoro Tito, head of the nation's first real political party, the Maneaban Te Mauri Party (MTM), was elected. The MTM won 19 of 39 seats in the House.

A special problem was posed by the Banabans, who were resettled in 1946 on Rabi (Fiji)—bought for them by means of phosphate royalties—so that strip mining on their native island could continue unimpeded. In 1975, the Banabans sued, petitioning the British courts for damages. After a lengthy legal battle, representatives of the Banabans (most of whom still reside on Rabi) agreed in 1981 to the creation of a trust fund of nearly A\$15 million for Banaban development. Recognition of Banaban minority rights is enshrined in Kiribati's constitution. Kiribati established diplomatic relations with the former Soviet Union in 1979 and with the People's Republic of China in 1980.

Kiribati opposes French nuclear testing in the Pacific and signed the 1985 Rarotonga Agreement declaring the South Pacific a nuclear-weapons-free zone. In 1985, Kiribati signed a one-year fishing agreement with the former USSR that aroused controversy at home and abroad. The agreement was not renewed after talks for its renegotiation broke off in September 1986.

Kiribati began resettling more than 4,700 people on outlying atolls in August 1988 in an attempt to relieve overcrowded conditions on the Tarawa atolls. In September 1988 Kiribati ratified the South Pacific Regional Fisheries Treaty, which permits

US tuna ships to operate within its 200-mile exclusive zone. In early 1992 the Parliament of Kiribati instructed the government (against its wishes) to seek compensation from the United States for damage done to the country during the Pacific War, 1941–45.

In 1994 the government of Kiribati underwent a constitutional crisis when President Teatao Teannaki was forced to resign following a no-confidence vote by the opposition in parliament, who had charged him with misusing travel funds. As specified in the constitution, executive authority was then transferred to a Council of State until new parliamentary and presidential elections could be held, but one member of the council refused to resign when his term expired and had to be forcibly removed, prompting calls for constitutional reform to prevent a similar situation from occurring in the future. Teburoro Tito was elected president in September, and elected to a second term in November 1998.

Together with Nauru and Tonga, Kiribati was admitted to the United Nations in 1999. In March of that year, the government declared a state of emergency as water shortages reached crisis levels due to an extended drought and pollution of the available water supply. Long-term elevation of the surrounding sea level due to global greenhouse emissions remains a serious concern for Kiribati, which reportedly has already lost two uninhabited islands and been forced to move segments of its population inland, away from coastal regions.

The 2002 presidential election process began with a general election for parliament on 29 November, but several rounds of voting took place before the election of a president on 25 February 2003. During the 29 November election, Harry Tong, a member of the opposition, won his seat in parliament and the right to stand as candidate for the presidency. Tito's party lost 14 of its 25 seats in the election, and was forced into a run-off election. Parliament could not meet until 6 January 2003, and that led to a delay in the presidential election scheduled to take place on 31 January 2003; it was postponed until 25 February. In January 2003, opposition parliamentarians named Taberannang Timeon to stand against Tito in the February election, instead of Tong. Tong had stepped aside in order not to split the opposition vote against Tito. Bakeua Bakeua Tekita stood as a third candidate. Tito narrowly won the 25 February election, defeating Timeon by only 547 votes.

### 13 GOVERNMENT

Under the independence constitution of 1979, Kiribati is a democratic republic within the Commonwealth of Nations. It has a 42-member unicameral legislature, the House of Assembly (Maneaba ni Maungatabu). Forty members are elected for four-year terms, one appointed seat is reserved for a representative of the Banaban community, and the Attorney General sits (*ex-officio*) as a non-elected member of parliament. The Speaker is elected to office by members of parliament but is not a member of parliament. He has neither an original or casting vote in parliamentary decisions. The president (*beretitenti*), who is both head of state and head of government, is elected directly by popular vote, from among members of the Assembly, to a term of up to four years; candidates are selected by the House from among its own members. When the president no longer enjoys the confidence of the legislature, the House is dissolved and new parliamentary and presidential elections are held, with a Council of State (consisting of the head of the Civil Service Commission, the chief justice, and the speaker of the House) governing in the interim. The cabinet consists of the president, vice president, attorney general, and no more than 10 other ministers selected from parliament.

Teatao Teannaki, head of the National Progressive Party, was elected the nation's second president in July 1991. He was obliged to resign following a no-confidence vote in 1994, and

Teburoro Tito, head of the Maneaban Te Mauri Party (MTM), was elected president. Tito was reelected in 1998 and 2003.

## 14 POLITICAL PARTIES

Traditionally, Kiribati had no formally organized parties. Instead, ad hoc opposition groups tended to coalesce around specific issues. There were no formally constituted political parties until 1985, when opponents of the Soviet fishing agreement founded the Christian Democratic party, headed by Dr. Harry Tong. The Christian Democrats, now known as the Maneaban te Mauri party, led by President Teburoro Tito, won 14 seats in the September 1998 parliamentary elections, and the principal opposition party, Boutokaan te Koaua, won 11; 14 seats were won by independents. In the elections held in November and December 2002, Boutokaan te Koaua took 17 seats in parliament, Tito's Maneaban te Mauri took 16, and independents held 7 seats.

Other parties that formed after 1991 included the Liberal Party; the New Movement Party; and the Health Peace and Honour Party. Today, the only recognizable parties are the Maneaban te Mauri Party and the Boutokaan te Koaua Party.

## 15 LOCAL GOVERNMENT

There are fully elective local councils on all the islands, in accordance with a local government ordinance of 1966. For administrative purposes the islands are divided into six districts: Tarawa (including the Phoenix group); North, South, and Central Gilberts; Banaba; and the Line Islands. This structure has been further divided into 21 island councils, one for each of the inhabited islands. The geographic dispersion of the islands leaves considerable freedom for the districts; their councils have wide taxing powers, including land taxes, and draw up their own estimates of revenues and expenditures.

## 16 JUDICIAL SYSTEM

The 1979 constitution provides for a High Court, with a chief justice and other judges, to act as the supreme court. There is also a Court of Appeal and magistrates' courts. Island courts were established in 1965 to deal with civil and criminal offenses. Native land courts have jurisdiction over property claims. High Court and Court of Appeal judges are appointed by the president.

The judiciary is independent and free from government influence. Civil rights and civil liberties are guaranteed in the constitution and respected in practice. Procedural due process safeguards are based on English common law. The trials are fair and public. The law prohibits the arbitrary interference with privacy, family, home and correspondence. The government authorities respect these provisions.

## 17 ARMED FORCES

Legislation providing for the establishment of a defense force of 170 men was repealed in 1978. There is a small police force. Australia and New Zealand provide defense assistance.

## 18 INTERNATIONAL COOPERATION

Kiribati participates in many Commonwealth activities and hosted the South Pacific Forum in 1981. Kiribati was admitted to the UN on 14 September 1999. It is also a member of the ESCAP, ICAO, IBRD, IMF, ICFTU, IDA, IFC, IFRC, IMF, INTELSTAT, INTERPOL, ITU, SPC, SP, UNESCO, UPU, and WHO. Kiribati participates in the Asian Development Bank and G-77 and is an applicant to the WTO.

## 19 ECONOMY

Kiribati's economy was supported by revenues from phosphate mining on Banaba until the deposits were exhausted in 1979. Since then, the nation has relied on fishing, subsistence agriculture, and exports of copra, recently 80–95% of exports,

and fish, 4–20% of exports. The country is heavily dependent on aid from the United Kingdom, Japan, Australia, New Zealand and China. Aid equals 25–50% of GDP, while tourism provides about 20%. In the 1990s, GDP increased steadily, peaking at A\$80.3 million in 1999, and then fell by 2.7% and 1.2%, respectively, in 2000 and 2001, to A\$78.1 million and A\$77.2 million, respectively. GNP runs between 1.5 to 2 times the size of GDP. In 2001, GNP was A\$136.9 million, 177% of GDP. Per capita GDP in 2000 was A\$843 and per capita GNP was A\$1,495. Inflation, at 0.4% in 2000 as measured by consumer prices, was increased to 9.4% in 2001. Unemployment was officially 2%, but underemployment was estimated by the government to be about 70% by a 1992 estimate.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Kiribati's gross domestic product (GDP) was estimated at US\$79 million. The per capita GDP was estimated at US\$840. The annual growth rate of GDP was estimated at 1.5%. The average inflation rate in 2001 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. It was estimated that agriculture accounted for 30% of GDP, industry 7%, and services 63%. Foreign aid receipts amounted to about US\$134 per capita and accounted for approximately 18% of the gross national income (GNI).

## 21 LABOR

Most of the population engages in subsistence agriculture or copra production, including the copra plantations on the Line Islands. About 90% of the labor force is engaged in agriculture or fishing. Overseas workers remitted a large percentage of their wages to Kiribati.

In urban areas there is a small but strong trade union movement. Affiliates of the Kiribati Trades Union Congress (KTUC), founded in 1982 with Australian assistance, include the Fishermen's Union, the Cooperative Workers' Union, the Seamen's Union, the Teacher's Union, and the Public Employees' Association; in 2002, the KTUC had about 2,500 members. Workers have the right to strike but rarely exercise this option. The government does not interfere with union activity.

There is no statutory minimum wage; however, the government sets wage levels in the large public sector, which is the major employer in the cash economy. The standard workweek for those in the public sector was 36.25 hours, with overtime pay for any additional hours. Children may not work under the age of 14. This is effectively enforced by the government in the modern, industrial sector of the economy, but many children do perform light labor in the traditional fishing economy.

## 22 AGRICULTURE

Agriculture is limited chiefly to coconut and pandanus production. About 37,000 ha (91,400 acres) of land is considered arable, representing 5.1% of the total land area. Overseas technical aid has allowed some islands to cultivate bananas and papaws for the Tarawa market. An estimated 12,000 tons of copra, 85,000 tons of coconuts, and 5,000 tons of bananas were produced in 1999. Agricultural trade in 2001 consisted of US\$2.5 million in exports and US\$11.6 million in imports. Agriculture contributes 30% to GDP.

## 23 ANIMAL HUSBANDRY

There were 10,800 pigs in Kiribati in 2001; annual pork production is about 1,100 tons. The Agricultural Division has introduced improved breeds of livestock.

## 24 FISHING

Sea fishing is excellent, particularly for skipjack tuna around the Phoenix Islands. Kiribati has one of the world's longest maritime zones, covering approximately three million sq km. Commercial fishing has expanded dramatically since 1979 as the result of projects funded by Japan, the United Kingdom, and the EU. The total sea catch in 2000 was 40,000 tons. Kiribati also receives revenue from the sales of licenses permitting foreign vessels to fish its offshore waters. Seaweed is also exported. Exports of fish products were valued at US\$3.9 million in 2000.

## 25 FORESTRY

The forested area was estimated to cover 38.4% of the islands in 2000, but there is little useful timber on the islands.

## 26 MINING

There has been no mining in Kiribati since the closing in 1979 of the Banaba phosphate industry. In its last year of operation, 445,700 tons of phosphates worth US\$18 million were exported.

## 27 ENERGY AND POWER

The government maintains electricity-generating plants on Tarawa and Christmas Island, and there are private generators on Banaba and several other islands. In 2001, electric power generating capacity was 2,000 kW. Production of electricity in 2000 totaled 7 million kWh, of which 100% was from fossil fuels. Consumption of electricity in 2000 was 6.5 million kWh.

## 28 INDUSTRY

Several small industries have been established, including a soft-drink plant, a biscuit factory, boat-building shops, construction companies, furniture plants, repair garages, bakeries, and laundries. The government also promotes local handicrafts. A pilot project on Kiritimati for producing solar-evaporated salt began operations in 1985. In 2000, this had declined to 0.7%, down from 1.2% in 1999. Construction was 2.7% of GDP in 2000, down from 4.6% in 1999.

## 29 SCIENCE AND TECHNOLOGY

The Foundation for the Peoples of the South Pacific, founded in 1982 and located at Bairiki, Tarawa, provides technical assistance for agriculture and nutrition programs.

## 30 DOMESTIC TRADE

The domestic economy is on a subsistence and barter basis. With very few local production or agricultural facilities the nation relies heavily on imported goods of all types. Revenues from fishing licenses, worker remittances, and foreign assistance form the basis of the economy. Retail sales are handled by cooperative societies, which distribute the bulk of consumer goods and perform all merchandising functions not dealt with by the government. Although private trade is growing, cooperatives are preferred as a matter of public policy because they are closer to the local tradition than are individual enterprises. Tourism is slowly growing as the main domestic economic activity.

## 31 FOREIGN TRADE

The loss of the phosphate industry, copra price fluctuations, and the islands' remoteness have hindered overseas trade, but an upward trend in foreign trade was perceptible in the 1980s. Copra—the only commodity exported by Kiribati—accounted for 64% of total domestic exports in 1996. Fish and seaweed are also exported, accounting for 14% and 8% of total exports, respectively. Kiribati's main export partners are the US, Australia, and New Zealand. Australia provides 44% of imports; Fiji, 19%; Japan, 15%; New Zealand, 4%; and the US and China, 5% each.

In 1999 Kiribati's imports were distributed among the following categories:

Consumer goods	16.2%
Food	31.9%
Fuels	10.5%
Industrial supplies	19.6%
Machinery	15.0%
Transportation	6.5%
Other	0.3%

## 32 BALANCE OF PAYMENTS

Continued deficits in the trade balance are often met by grants from the UK to the government's current and capital accounts. Foreign aid, in fact, accounts for between 25% and 50% of GDP.

The US Central Intelligence Agency (CIA) reports that in 1998 the purchasing power parity of Kiribati's exports was US\$6 million while imports totaled US\$44 million resulting in a trade deficit of US\$38 million.

The International Monetary Fund (IMF) reports that in 1994 Kiribati had exports of goods totaling US\$6 million and imports totaling US\$27 million. The services credit totaled US\$18 million and debit US\$17 million. The following table summarizes Kiribati's balance of payments as reported by the IMF for 1994 in millions of US dollars.

<b>Current Account</b>	<b>1</b>
Balance on goods	-21
Balance on services	0
Balance on income	15
Current transfers	7
<b>Capital Account</b>	<b>3</b>
<b>Financial Account</b>	<b>-5</b>
Direct investment abroad	0
Direct investment in Kiribati	0
Portfolio investment assets	-7
Portfolio investment liabilities	...
Other investment assets	...
Other investment liabilities	1
<b>Net Errors and Omissions</b>	<b>-5</b>
<b>Reserves and Related Items</b>	<b>6</b>

## 33 BANKING AND SECURITIES

The Bank of Kiribati in Tarawa is jointly owned by the Westpac Banking Corp. (Australia) and the government of Kiribati (49%). The Kiribati Development Bank, opened in 1987, was to take over the assets of the National Loans Board when it became fully operational.

## 34 INSURANCE

Individual coverage is available in Tarawa through private and government agencies.

## 35 PUBLIC FINANCE

Local revenues are derived mainly from import duties, fishing fees, and investment income from the phosphate fund. The country has been running a capital account deficit since independence. Overall, budgetary deficits have appeared in recent years, growing substantially in the 1990s.

The US Central Intelligence Agency (CIA) estimates that in 2000 Kiribati's central government took in revenues of approximately US\$28.4 million and had expenditures of US\$37.2 million. Overall, the government registered a deficit of approximately US\$8.8 million. External debt totaled US\$10 million.

### 36 TAXATION

The main source of tax revenue, the phosphate industry, ended in 1979. Other taxes have brought meager returns, except for a copra export tax, with producers protected by a government stabilization fund. The Revenue Equalization Reserve Fund decreased from A\$658 million at the end of 2000 to A\$635 million at the end of 2001. This is equivalent to 10 years of imports or 8.2 times GDP.

A progressive income tax, introduced in 1975, is set at 25% of gross income above US\$1,233 and increases in two steps to 35% on gross incomes over US\$34,393. Companies are taxed 25% of net profits of the first US\$34,393 and 35% on any net profits over this amount. The hotel tax is a flat rate of 10% of turnover. Withholding tax on dividends paid to overseas investors (except Australians) is 30%; withholding tax on dividends paid to Australians is 15%. Island councils levy local rates; a landowners' tax is based on land area and fertility.

### 37 CUSTOMS AND DUTIES

Since a single-line tariff was introduced on 1 January 1975, trade preferences are no longer granted to imports from Commonwealth countries. Tariffs, applying mostly to private imports, are imposed as a service of revenue at rates up to 75%. Most duties are levied ad valorem, with specific duties on alcoholic beverages, tobacco, certain chemicals, petroleum, cinematographer's film, and some other goods. Goods from all sources are subject to an additional freight levy charge.

### 38 FOREIGN INVESTMENT

Foreign investment legislation was passed in 1986. The Foreign Investment Commission (FIC) grants licenses on a case-by-case basis. Investments over US\$171,790 must also be approved by the Cabinet. Performance criteria regarding employment, training and production are often set. Certain local industries are closed to foreign investment including pig farming, poultry farming, millionaire salad exportation, domestic interisland shipping, and wholesaling. Endangered species are protected. Fisheries and the agricultural sector are not closed, but are subject to restrictions.

There has been little appreciable investment in recent years. Government statistics show a total of 21 approved foreign investments from 1995 to September 1997, whereas there had only been five approved foreign investments the previous three years. In 2001, foreign direct investment (FDI) was a negative US\$426,000 and portfolio investment was a negative US\$5.7 million. Portfolio investment flows have been persistently negative, reaching a peak outflow of US\$17.7 million in 1992. The main sectors for investment have been tourist-related activities, shipping, fishing ventures, and the processing and export of fish. The main sources of investments have been the US, Japan, the UK, Australia, and New Zealand.

### 39 ECONOMIC DEVELOPMENT

The economic development plans for 1979–82 and 1983–86 were financed chiefly by the United Kingdom and supplemented by Australia, New Zealand, and Japan, with loans from the Asian Development Bank. Canada, Germany, and the Republic of Korea also have started small aid programs. The government lays out National Development Plans at four year intervals, and is now on its seventh plan, for 2000–04. The goals are set with expertise assistance from Australia, the United Kingdom, New Zealand, and international financial organizations, the country's primary sources of aid. The current National Development Plan sets priority on the development of fisheries and air transportation, including a proposal for a government airline. Other sectors emphasized are communications, agriculture and tourism. Policies are aimed at improving education and training, increasing government revenues, increasing employment

opportunities and narrowing the trade deficit. It has been made illegal to sell land in Kiribati, but it may be leased. Concern about preserving traditional culture and the environment, and preventing the formation of a landless class, are as strong as aspirations for economic growth and participation in the cash economy. Of particular concern in this group of low-lying atolls is the effects of global warming, as a significant rise in the sea level could literally make much of the country disappear.

### 40 SOCIAL DEVELOPMENT

A provident fund system provides old age, disability, and survivor benefits for all employees over 14 years old with the exception of domestic workers. It is funded by employee contributions of 5% of earnings and the employer paying an equal percentage of payroll. Retirement is allowed at ages 45–50 and benefits are paid as a lump sum. Workers' compensation is compulsory for employed persons earning A\$4,000 a year or less. The cost is covered by the employer.

Migration and missionaries have proved to be the principal agents of social change. Mission lands are still used for social welfare purposes. The majority of the population still clings to traditional village life and the extended family system, which renders state welfare largely unnecessary. Problems exist mainly in the rapidly urbanized south Tarawa area, where some juvenile delinquency has developed. Women's clubs, organized by the women's section of the Ministry of Welfare, have raised funds for local projects. Rural training centers have also been established.

Women are accorded the same legal rights as men, but have traditionally been relegated to a subordinate role in society. However, they are gradually breaking out of their traditional role and entering both skilled and unskilled occupations. There have also been signs of affirmative action in government hiring and promotions. Violence against women is not a widespread problem and is usually related to alcohol abuse. Child abuse appears to be a growing problem.

There were no reports of human rights abuses or of the systematic discrimination of minorities. Corporal punishment remains legal for some crimes.

### 41 HEALTH

All health services are free. A nurses' training school is maintained at the 160-bed Central Hospital in Tarawa. There are four medical districts, each with its own medical officer and staff. Each inhabited island has a dispensary, and there is a medical radio network linking all the islands. In 1990, there were 1.8 hospital beds per 1,000 inhabitants. In 1998, there were 0.3 doctors, 2.4 nurses, and 0.05 dentists per 1,000 people. The population of Kiribati had increased access to safe water (99%) and sanitation (100%) in 1993.

Tuberculosis remains the most serious public health problem (about 200 cases per 100,000 people in 1990); other endemic diseases are leprosy, filariasis, and dysentery. There was a cholera outbreak in 1977, after which projects to construct water and sewage pipes were speeded up. Vitamin A deficiency, frequently causing night blindness and xerophthalmia, is a common occurrence among children in Kiribati. The prevalence of xerophthalmia was almost 15% in children in 1994.

Infant mortality was estimated at 53 per 1,000 live births in 2002 and average life expectancy was 60.5 years. The immunization rates for a child under one were as follows in 1995: diphtheria, tetanus, and whooping cough, 60%; polio, 100%; measles, 100%; and tuberculosis, 60%. As of 2002, the crude birth rate and overall mortality rate were estimated at 31.6 and 8.8 per 1,000 people respectively. The total fertility rate was estimated at 4.3 births per woman.



## 42 HOUSING

Most Kiribatians live in small villages of from 10 to 150 houses and construct their own dwellings from local materials. The use of more permanent building materials, such as concrete with corrugated aluminum roofing, is becoming common in urban areas. Loans to prospective homeowners are provided by the National Loans Board. Dwellings range from traditional houses with thatched roofs to nontraditional houses with metal roofs.

## 43 EDUCATION

The government has gradually taken over control of primary education from the missions. Education has been made compulsory by the government for children between the ages of 6 and 15 years. They go through seven years of primary education and five years of secondary education. In 1997, there were 17,594 students attending 86 primary schools, with 727 teachers. Student-to-teacher ratio stood at 24 to 1. In secondary schools, there were 215 staff and 4,403 students in that same year. Secondary school pupils take the New Zealand school certificate. The estimated adult literacy rate is 93%.

Higher education courses are available at the Kiribati Extension Center of the University of the South Pacific (Fiji) in Tarawa. Other post-secondary education is provided by scholarships for study abroad. The Tarawa Technical Institute offers instruction in technical and vocational skills. The Marine Training Center offers 18-month instruction in deck, engine room, and catering work on foreign shipping lines; there are approximately 200 students enrolled in these programs.

## 44 LIBRARIES AND MUSEUMS

The National Library and Archives in Tarawa has a collection of 50,000 volumes, including those in small units throughout the islands. The University of the South Pacific has a campus in Tarawa with a small library of 5,700 volumes. Items are being stored in the National Archives in anticipation of the formation of the national museum which is to be in Tarawa.

## 45 MEDIA

In 1999, there were 3,800 telephone lines in use across the country. Radio Kiribati, operated by the Broadcasting and Publications Authority (BPA), transmits daily in I-Kiribati and English and broadcasts a few imported Australian programs. As of 2002, there were two radio stations, 1 AM and 1 FM, and 1 television station. As of 1997, there were 17,000 radios and 1,000 televisions in use nationwide. In 2000, one Internet service provider served 1,000 subscribers.

The BPA publishes a fortnightly bilingual newspaper, *Te Uekera*. There is no commercial press; all publications are government- or church-sponsored. The Information Department at Tarawa publishes *Atoll Pioneer*, a weekly newspaper. *Te Itoi ni Kiribati*, a weekly newsletter, is published by the Roman Catholic Church. *Te Kaotan te Ota* is a newspaper published monthly by Protestant Church. Kiribati is on the Peacesat network, which

provides educational transmissions from Suva. A satellite link with Australia was established in 1985.

Although the one radio station and *Te Uekera* are government owned, they offer a variety of views; the constitution provides for legally guaranteed freedom of speech and press.

## 46 ORGANIZATIONS

The most important organization is the *mronron* (a word meaning "sharing"), a cooperative society based on kinship or locality. There is a national Credit Union League and a teachers' union. National youth organizations include the Kiribati Students' Association, the Kiribati Scouts Association, and the Kiribati Girl Guides Associations.

## 47 TOURISM, TRAVEL, AND RECREATION

Tourism is undeveloped because of a lack of regular transport. There is a visitors' bureau at Tarawa, and there are hotels in Betio and on Abemama and Christmas islands. The bureau makes available fishing, swimming, and boating facilities on Tarawa and arranges trips by sea or air to other islands.

Modern forms of recreation are developing, especially soccer. Traditional dancing and singing styles have survived. In 2000, 4,035 foreign visitors arrived in Kiribati. More than 1,000 tourists were from the US. Tourist receipts totaled about US\$2.1 million.

In 1999 the UN estimated the cost of staying in Christmas Island at US\$150 per day. Staying in the outer islands was significantly less expensive, requiring an estimated US\$29 in daily expenses.

## 48 FAMOUS KIRIBATIANS

Jeremia Tabai (b.1950) was president from independence until 1991.

## 49 DEPENDENCIES

Kiribati has no territories or colonies.

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# KOREA, DEMOCRATIC PEOPLE'S REPUBLIC OF (DPRK)

Democratic People's Republic of Korea  
*Choson Minjujuui Inmin Konghwa-guk*

**CAPITAL:** P'yongyang

**FLAG:** A wide horizontal red stripe is bordered on top and bottom by narrow blue stripes, separated from the red by thin white stripes. The left half of the red stripe contains a red five-pointed star on a circular white field.

**ANTHEM:** *The Song of General Kim Il Sung.*

**MONETARY UNIT:** The won (₩) of 100 ch'on (or jeon) is the national currency. There are coins of 1, 5, 10, and 50 ch'on, and 1 won, and notes of 1, 5, 10, 50, and 100 won. ₩1 = \$0.00674 (or \$1 = ₩148.33; as of April 2003).

**WEIGHTS AND MEASURES:** The metric system and native Korean units of measurement are used.

**HOLIDAYS:** New Year's Day, 1 January; Kim Jong Il's Birthday, 16 February; International Women's Day, 8 March; Kim Il Sung's Birthday, 15 April; May Day, 1 May; Liberation Day, 15 August; National Foundation Day, 9 September; Founding of the Korean Workers' Party, 10 October; Anniversary of the Constitution, 27 December.

**TIME:** 9 PM = noon GMT.

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

The Democratic People's Republic of Korea (DPRK), often called North Korea, occupies the northern 55% of the Korean Peninsula in East Asia. It has an area of 120,540 sq km (46,541 sq mi), extending 719 km (447 mi) NNE–SSW and 371 km (231 mi) ESE–WNW. Comparatively, the area occupied by DPRK is slightly smaller than the state of Mississippi. It is bordered on the N by China, on the NE by the Russia, on the E by the Sea of Japan (including East Korea Bay), known in Korea as the East Sea, on the S by the Republic of Korea (ROK), and on the S and W by the Yellow Sea and Korea Bay, with a total land boundary length of 1,673 km (1,040 mi) and a coastline of 2,495 km (1,550 mi). A demilitarized zone (DMZ), 4,000 m (13,100 ft) wide, covering 1,262 sq km (487 sq mi), and located north and south of the 38th parallel, separates the DPRK from the ROK, which occupies the southern part of the Korean Peninsula.

The DPRK's capital city, P'yongyang, is located in the southwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The DPRK is mostly mountainous. Mt. Paektu (2,744 m/9,003 ft), an extinct volcano with a scenic crater lake, is the highest point; it is located on the border with China and forms part of the Mach'ol Range. Other peaks of note include Mt. Kwanmo (2,541 m/8,337 ft), in the Hamgyong Range; Mt. Myohyang (1,909 m/6,263 ft), in the Myohyang Range, north of P'yongyang; and Mt. Kumgang ("Diamond Mountain," 1,638 m/5,374 ft), in the Taebaek Range in the southeast. Only about 20% of the country consists of lowlands and plains, but it is in these areas that the population is concentrated. The principal lowlands are the Unjon, P'yongyang, Chaeryong, Anju, and Yonbaek plains, extending from north to south along the west coast; and the Susong, Yongchon, Kilchu, Hamhung, and Yonghung plains, along the eastern shore.

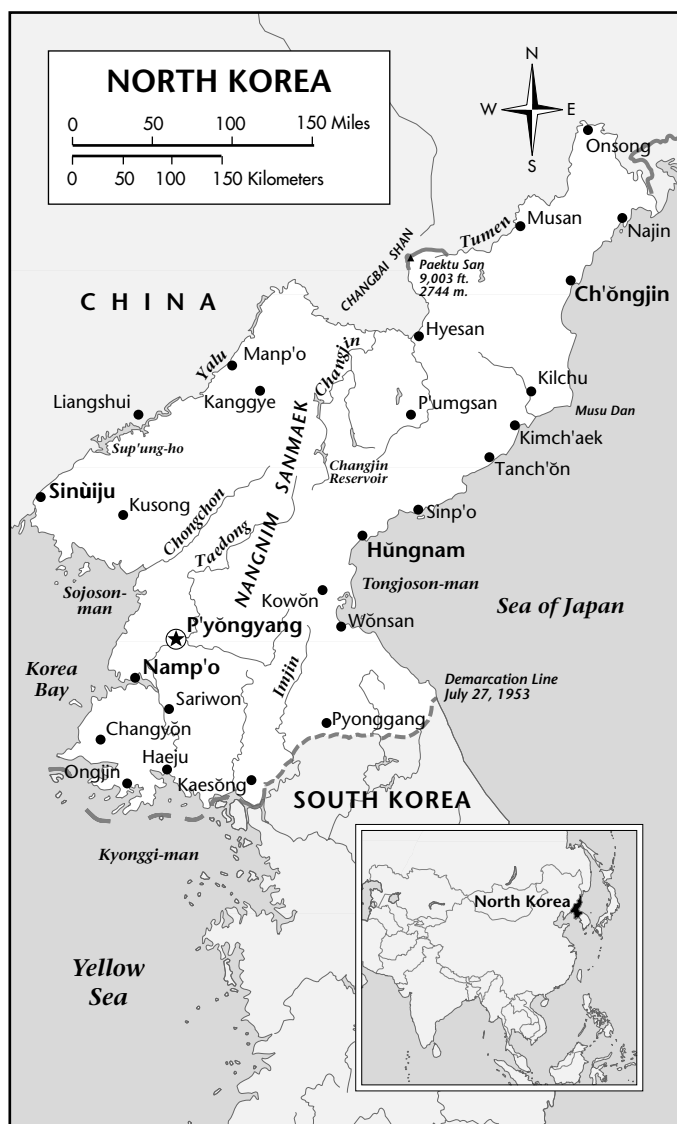
The principal rivers are the Tumen and Yalu along the northern border of the peninsula, both of which rise in Mt. Paektu, and the Taedong, which flows past P'yongyang. The Imjin rises in the DPRK near the 38th parallel in the west and crosses into the ROK before entering the Yellow Sea. Yellow Sea tides on the west coast rise to over 9 m (30 ft) in some places; Sea of Japan tides on the east rise to only about 1 m (3 ft).

## <sup>3</sup>CLIMATE

The climatic range is greater than the limited size of the peninsula would suggest. The average January temperature is -17°C (1°F) at Chunggang on the north-central border and -8°C (18°F) at P'yongyang. In the hottest part of the summer, however, the variation is not nearly so marked, average temperatures ranging from 24°C (75°F) in P'yongyang to 21°C (70°F) along the relatively cool northeast coast. Spring and fall are unusually pleasant, but winters are colder than average for the latitude, and summers are hot and humid. Precipitation is around 50 cm (20 in) along the upper reaches of the Tumen, but more than half of the peninsula receives 75–100 cm (30–40 in) per year. Nearly all the rainfall occurs in the April–September period, especially during the rainy season, from late June to early August. Typhoons occur occasionally in the early fall. Days without frost number about 180 in the northern part of the peninsula and increase toward the south.

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

Cold temperate vegetation, including firs, spruces, and other needled evergreens, predominate in mountainous areas of the DPRK, with alpine varieties flourishing at the higher altitudes. The hilly terrain of Mt. Paektu is believed to be the peninsula's last remaining habitat for Siberian tigers and is also, along with other alpine areas, the home of bears, wild boar, deer, snow leopards, and lynx. Common at lower elevations are the roe deer, Amur goral, wolf, water shrew, and muskrat. Birds seen in the



LOCATION: 37°38' to 43°1' N; 124°13' to 130°39' E. BOUNDARY LENGTHS: China, 1,025 kilometers (637 miles); Russia, 16 kilometers (10 miles); ROK, 240 kilometers (149 miles); total coastline, 1,028 kilometers (639 miles). TERRITORIAL SEA LIMIT: 12 miles.

DPRK include the black Manchurian ring-necked pheasant, black grouse, and three-toed woodpecker; the hawk owl, lesser-spotted woodpecker, and willow tit are indigenous to Mt. Paektu.

## 5 ENVIRONMENT

The Democratic People's Republic of Korea has environmental problems in the area of water pollution from agricultural and industrial sources. The nation has 67 cubic kilometers of renewable water resources with 73% used for farming activity and 16% used for industrial purposes. Korea's cities produce an average of 2.6 million tons of solid waste per year. In 1992 the DPRK was among the 20 countries with the world's highest levels of industrial carbon dioxide emissions, which totaled 253.7 million metric tons, a per capita level of 11.21 metric tons. In 1996, the total rose to 254.3 million metric tons.

The Korean government has established 220 facilities to regulate environmental conditions, industrial areas, protected land, and water reserves. The government has also created the Law of Environmental Protection. In 2001, 7 of Korea's mammal

species and 19 of its bird species were endangered. Endangered species in the DPRK included the tiger (particularly the Siberian tiger), Amur leopard, Oriental white stork, Japanese crested ibis, and Tristram's woodpecker. The Japanese sea lion has become extinct.

## 6 POPULATION

The population of North Korea in 2003 was estimated by the United Nations at 22,664,000, which placed it as number 47 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 27% 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 0.54%, with the projected population for the year 2015 at 23,706,000. The population density varies greatly from region to region, with an average of 192 per sq km (498 per sq mi) in 2002. The majority of the population resides in the southern regions, with the mountainous northern border being the most sparsely populated.

It was estimated by the Population Reference Bureau that 60% of the population lived in urban areas in 2001. The capital city, P'yongyang, had a population of 3,136,000 in that year. Other large cities include Hamhung, with 670,000 inhabitants; Ch'ongjin, 530,000; Kaesong, 310,000; and Sinuiju, 330,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.6%.

## 7 MIGRATION

During the generation of Japanese occupation (1910–45), some three million Koreans, mainly from the northern provinces, emigrated to Manchuria and parts of China, 700,000 to Siberia, some three million to Japan, and about 7,000 to the United States (mostly to Hawaii). From the end of World War II in 1945 through 1950, at least 1.2 million Koreans crossed the 38th parallel into the ROK, refugees either from Communism or from the Korean War. Repatriation of overseas Koreans is actively encouraged in an attempt to ameliorate the nation's chronic labor shortages. Between 1945 and 1950, an estimated 300,000 Koreans were repatriated from Manchuria and Siberia; over 93,000 out of about 600,000 Koreans in Japan were repatriated to the DPRK between December 1959 and the end of 1974. The General Association of Korean Residents in Japan actively promotes the DPRK cause, and the P'yongyang government subsidizes some Korean schools on Japanese soil. Some 250,000 people of Korean origin in Japan have links to the DPRK, providing \$600–\$1,800 million in annual remittances to relatives. Under a 1986 treaty with China, North Koreans apprehended as illegal immigrants in China are quickly returned to the DPRK and executed. Between 1992 and 1996, about 1,000 North Koreans fled to China, where refugees can avoid detection within large ethnic-Korean communities. Both China and South Korea have begun to construct refugee camps in anticipation of a mass exodus of the population should the North Korean government collapse. In 1999, the net migration rate was zero migrants per 1,000 population.

## 8 ETHNIC GROUPS

The Koreans are believed to be descended primarily from Tungusic peoples of the Mongoloid race, who originated in the cold northern regions of Central Asia. There is scant evidence of non-Mongoloid admixture. There is a small Chinese community and a few ethnic Japanese; however, the DPRK has no sizable ethnic minority.

## 9 LANGUAGES

The Korean language is usually acknowledged to be a member of the Altaic family and is clearly related to other agglutinative

tongues like Turkish, Mongolian, and Japanese. Linguistic unification of the Korean Peninsula apparently followed political unification in the 7th century AD, and today the dialect differences are comparatively slight.

Korean is written with a largely phonetic alphabet called Han'gul. Created in 1443 under the great King Sejong, the Korean alphabet originally consisted of 14 consonants and 10 vowels; since then, 5 consonants and 11 vowels have been added. Han'gul letters are combined into syllables by clustering, in imitation of Chinese characters. Before the invention of Han'gul, Koreans wrote in Chinese, which continued to be both the official language and the language of most literature until the beginning of the 20th century. With the beginning of the Japanese colonial administration in 1910, Japanese became the official language, and the use of Korean was restricted.

Since 1949, the DPRK has used only Han'gul (calling it Choson Muntcha) for writing. North Korean linguists have studied Han'gul extensively, publishing comprehensive dictionaries in 1963 and 1969. In 1964, Kim Il Sung called for purification of Korean by replacing borrowings from English and Japanese with native Korean or familiar Chinese terms. The traditional honorifics of polite language remain in use, though in simplified forms, and have been sanctioned by the government.

Some Chinese (Mandarin dialect) and Russian are spoken in border areas.

## 10 RELIGIONS

The constitution provides for "freedom of religious belief," but in practice the government discourages all organized religious activity except that which serves the interests of the State. Real religious freedom does not exist. The constitution also states that "no one can use religion as a means to drag in foreign powers" or to disrupt the social order.

According to current government estimates, a majority of the population professes no religion or are avowed atheists. However, foreign observers indicate that religious activity within the country is much greater than the government suggests. Indigenous shamanism, notable for its emphasis on exorcising evil spirits, is practiced by a small percentage of the population, mostly in rural areas. The government reports that about 40,000 people are followers of Ch'ondogyo (Religion of the Heavenly Way), an eclectic indigenous sect incorporating both Christian and Buddhist elements. Originating in 1860, this organization went underground following the arrest of 10,000 Ch'ondogyo members in 1948. The government estimates there are 10,000 Buddhists who remain active despite the conversion of many Buddhist temples to secular uses.

Up to the mid-1940s, P'yongyang was an important center of Korean Christianity. Most of the nation's Christians, predominantly Protestants, fled to the ROK to escape persecution between 1945 and 1953. Christians now make up less than 1% of the population, or about 14,000 people according to the government. A number of Christian churches are overseen by lay leaders, since there are very few ordained priests and ministers. House churches may be more common among Christians; however, since these meetings are generally kept secret, there is no exact data concerning membership or participation. Those caught proselytizing may be arrested and are subject to harsh penalties.

## 11 TRANSPORTATION

The rail network, which has been rebuilt and extended following its almost complete destruction during the Korean War, is the principal means of transportation, carrying nearly all of the nation's freight and most of its passenger traffic. In 2002, railways in use comprised 5,000 km (3,107 mi) of track. The principal lines run along the west coast from P'yongyang to Sinuiju and across the peninsula from P'yongyang to Wonsan, Hamhung, and Ch'ongjin. A northern line, completed in the early

1980s, links P'yongyang to Hyesan and Musan. The major trunk routes are electrified. A subway system opened in P'yongyang in 1973 and was expanded under the 1978-84 development plan. There are also train services to Moscow and Beijing.

Road transportation is of secondary importance. In 2002, highways totaled an estimated 31,200 km (19,388 mi), of which only 1,997 km (1,241 mi) were paved. The exceptions are a superhighway connecting P'yongyang with Kaesong and two multi-lane highways, which link the national capital with the ports of Wonsan and Namp'o.

Most of the nation's 2,253 km (1,400 mi) of navigable waterways are suitable for small craft only. Rivers utilized for freight transportation are the Yalu, Taedong, and Chaeryong. The principal ports are Namp'o on the west coast, and Ch'ongjin and Hungnam (Hamhung) on the east coast. In 2002, there were 122 ships in the merchant fleet, with a total capacity of 738,886 GRT (1,037,506 DWT). Also in 2001, there were 87 airports, of which 39 had paved runways. Limited air services connect P'yongyang with other cities within the DPRK and in China and the former USSR. In 2001, 78,800 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The history of the Korean people begins with the migration into the Korean Peninsula of Tungusic tribes from northern China and Manchuria about 3,000 BC. The archaeological evidence indicates that these tribes possessed a Neolithic culture and that it was not until about the 8th century BC that the art of metalworking came to Korea from China. The recorded history of Korea begins around 194 BC, when the ancient kingdom of Choson ("Land of Morning Calm") in northwestern Korea was seized by Wiman, a military figure from China of either Chinese or Korean origin. He usurped the throne from a king who, according to legend, was a descendant of Kija, a historical Chinese nobleman who emigrated from China at the end of the Shang dynasty (c.1122 BC). A popular Korean legend of much later origin asserts that Kija was preceded in his rule over the Korean Peninsula by a dynasty started in 2333 BC by the semidivine figure Tan-gun, an offspring of the son of the divine creator and a "bear woman" (possibly a woman from a bear-totem tribe). Both Tan-gun and Kija are still widely revered.

The primitive state controlled by Wiman's successors fell victim to expanding Chinese power in 108 BC, and there followed more than four centuries of Chinese colonial rule. During this period, the advanced Chinese culture slowly spread into nearly every corner of Korea, giving impetus to the coalescence of the loosely knit Korean tribes into statelike formations. By AD 313, when the Chinese power was destroyed, three Korean kingdoms had emerged: Paekche, in the southwest; Silla, in the southeast; and Koguryo, in the northwest. The three kingdoms had advanced cultures for the time, each compiling a written history during the 4th-6th centuries. During the same period, Buddhism was introduced into Korea, from which it was later taken to Japan. Ultimately, the Silla kingdom crushed the other two and united all but the northernmost portion of the peninsula, ushering in the age of the Silla Unification (668-900). After rebellions broke out, Korea again suffered threefold division, until reunification was achieved in 936 under the leadership of Wang Kon, who had proclaimed a new dynasty in the kingdom of Koryo (founded in 918), which derived its name from Koguryo; the name Korea is derived from Koryo.

Chinese influence on political and social institutions and on Korean thought went on at an accelerated pace during the Koryo period, and there were some notable cultural achievements, including the traditional invention of the use of movable metal type in printing in the early 12th century. Beginning in 1231, however, the Mongols invaded Koryo, devastating the land and, from 1259 on, making puppets of the Korean kings. Following a

revolt against the Mongol Empire in 1356 and a subsequent period of disorder, Gen. Yi Song-gye assumed the throne as King T'aejo in 1392, adopting the name Choson for Korea, moving the capital from Kaesong (the capital of Koryo since 918) to Seoul, and ushering in the long-lived Yi (or Li) Dynasty (1392–1910).

The first hundred years of Yi rule witnessed truly brilliant cultural achievements, especially during the reign of King Sejong (1418–50). The world's first authenticated casting of movable metal type was made in 1403. The Korean alphabet, Han'gul, was developed. A rain gauge was invented and put into use throughout the peninsula. A spate of basic texts—including histories, geographies, administrative codes, and works on music—were compiled and issued under state auspices. Scholars competed for government posts through the civil service examination system. By about 1500, however, factionalism divided the kingdom, and the Yi rulers were ill-prepared to meet foreign invasion. In 1592, in the course of an attempt to conquer China, the Japanese, under Hideyoshi Toyotomi, invaded Korea and were repulsed by an allied Chinese army and the Korean navy under Yi Sun-sin; in 1597 there was another invasion, which ended with Hideyoshi's death in 1598. After being invaded by the Manchus in 1636, Korea became a vassal state, eventually falling under the official but loose control of the Qing (Ch'ing), or Manchu, dynasty in China. During the 18th century, two energetic kings, Yongjo (r.1724–76) and Chongjo (r.1776–1800), were able to arrest somewhat the process of dynastic decline. The intellectual and cultural revival that they engendered, known as the Practical Learning Movement (Sirhak), was short-lived, however, and the Yi kingdom's bitterest century followed.

The first six decades of the 19th century were marked by a succession of natural disasters, by mounting peasant unrest and insurrection, and by administrative relapse into hopeless corruption and inefficiency. Eventually a Korean figure came forward to attempt to rescue the dynasty from impending collapse. This was Yi Ha-leng, known as the Taewon'gun (Prince Regent), who was the father of the king, Kojong, and held the actual power during the decade 1864–73. While his domestic reforms were generally enlightened and beneficial, he adopted an isolationist policy, including persecutions of the growing Roman Catholic community in Korea. Such a policy was doomed to failure. Soon after the Taewon'gun's downfall, the Kanghwa Treaty of 1876 with Japan opened Korea by force both to Japan and to the clamoring Western nations. During the last quarter of the 19th century, Korea was the prize in a complex rivalry for mastery of the peninsula among Japan, China, Western imperialist powers, and domestic political forces. Japan seized upon the pretext of peasant uprisings in Korea's southern provinces (the Tonghak Rebellion, led by followers of what later came to be called the Ch'ondogyo religion) during 1894–95 to destroy waning Chinese power in Korea in the First Sino-Japanese War. A decade later, Japan turned back the Russian bid for supremacy in the Russo-Japanese War (1904–5). In 1910, with the tacit approval of the United States and the European powers, the Yi Dynasty came to an end with the formal annexation of Korea by Japan.

### The Democratic People's Republic

For 35 years, Korea (renamed Choson) remained under the Japanese yoke, until liberated by US and Soviet troops at the end of World War II. Although Japanese colonial rule brought to Korea considerable economic development along modern Western lines, the benefits went primarily to the Japanese, and the process was accompanied by ever harsher political and cultural oppression. The Korean people staged a nationwide passive resistance movement beginning on 1 March 1919 (the Samil or "March 1" Movement), only to have it swiftly and brutally crushed by their Japanese overlords. In the 1920s and 1930s, nationalist and Communist movements developed both within

Korea and among Korean exiles in the former USSR, Manchuria (which was occupied by Japan in 1931), and the rest of China. After the onset of the Second Sino-Japanese War in 1937, the Japanese aimed to eradicate Korean national identity; even the use of the Korean language was banned.

After Japan accepted the Potsdam Declaration for unconditional surrender on 14 August 1945, the 38th parallel was chosen, as a result of US initiative, as a line of demarcation between Soviet occupation forces (who had entered the north on 8 August) and US occupation forces (who were introduced on 8 September). While the Americans set up a full military government allied with conservative Korean political forces, the Soviets allied their government with leftist and Communist Korean forces led by Kim Il Sung, who had been an anti-Japanese guerrilla leader in Manchuria. After a joint commission set up by the US and the USSR failed to agree on plans for the reunification of Korea, the problem was placed on the UN agenda in September 1947. In accordance with a UN resolution, elections were held on 10 May 1948 in South Korea alone; North Korea did not recognize UN competency to sponsor the elections. The newly elected National Assembly formulated a democratic constitution and chose Syngman Rhee, who had been the leader of an independence movement in exile, to be the first president of the Republic of Korea, proclaimed on 15 August 1948. On 9 September, the Democratic People's Republic of Korea was established in the north, with Kim Il-sung at the helm. Like its southern counterpart, the DPRK claimed to be the legitimate government of all Korea. In December, however, the ROK was acknowledged by the UN General Assembly as the only government in Korea to have been formed according to the original UN mandate. The next year and a half brought sporadic border clashes between the two Koreas, coupled with increasing guerrilla activity in the south.

On 25 June 1950, the People's Army of the DPRK struck across the 38th parallel at dawn in a move to unify the peninsula under Communist control. The DPRK forces advanced rapidly; Seoul, the ROK capital, fell within three days, and the destruction of the ROK seemed imminent. At US urging, the UN Security Council branded the DPRK an aggressor and called for the withdrawal of the attacking forces. President Harry S. Truman ordered US air and naval forces into battle on 27 June and ground forces three days later. A multinational UN Command was then created to join with and lead the South Koreans. An amphibious landing at Inch'on (15 September) in the ROK under General Douglas MacArthur brought about the complete disintegration of the DPRK's military position.

MacArthur then made a fateful decision to drive into the north. As the UN forces approached the Yalu River, China warned that it would not tolerate a unification of the peninsula under US/UN auspices. After several weeks of threats and feints, "volunteers" from the Chinese People's Liberation Army entered the fighting en masse, forcing MacArthur into a costly, pell-mell retreat back down the peninsula. The battle line stabilized nearly along the 38th parallel, where it remained for two years. On 27 July 1953, an armistice agreement finally was signed by the North Korean People's Army, the Chinese volunteers, and the UN Command at P'anmunjom in the DPRK, ending a conflict that cost the lives of an estimated 415,000 South Koreans, 23,300 Americans (combat dead), and 3,100 UN allies; casualties among Communist forces are officially estimated by the DPRK at 50,000 but may have been as high as two million. A military demarcation line, which neither side regarded as a permanent border, was established, surrounded by the DMZ. After the armistice agreement, all but a token force of UN Command troops withdrew, except those of the United States, which in 1954 guaranteed the security of the ROK under a mutual defense treaty. A postwar international conference held in 1954 to resolve the problem of Korea's political division was unable to find a

satisfactory formula for reunification. Meanwhile, the DPRK, with the aid of China and the former USSR, began to restore its war-damaged economy. A series of purges consolidated political power in the hands of Kim Il Sung and his supporters. By the end of the 1950s, Kim had emerged as the unchallenged leader of the DPRK and the focus of a personality cult that developed around him and his family.

In 1972, the government replaced the original 1948 constitution with a new document (which would be further revised in 1992), and reunification talks, stalled since 1954, resumed under Red Cross auspices, though without lasting effect. Throughout the 1970s and 1980s, as part of its "cold war" with the ROK, the DPRK extended its diplomatic relations to over 100 countries. The ROK continued to charge the DPRK with attempts at sabotage and subversion, including infiltration by tunnels under the DMZ. In the 1980s, Korea's basic divisions remained unresolved. Since 1980, President Kim proposed that both the North and South be reunited as a confederal state, with each part retaining regional autonomy and its own ideological and social system, but the ROK has rejected the concept; the DPRK likewise has rejected the ROK's repeated proposals for the resumption of North-South talks on reunification unless the United States is a third party in the negotiations, but neither the ROK nor the United States has accepted that condition. Kim was unanimously reelected president in May 1990, and his son, Kim Jong-Il (1942–), groomed since the 1960s as his designated successor, appeared to be running the nation's day-to-day affairs, though without benefit of any formal administrative post. Indications of an improvement in relations between the North and South included material relief provided by the DPRK to the ROK after a flood in 1984, talks under Red Cross auspices that led to a brief reunion of separated families in 1985, economic discussions, and interparliamentary contacts. The DPRK did not participate in the 1988 summer Olympic Games, officially hosted by the ROK, since it was not named as cohost.

During the 1990s, the DPRK was less able to rely on its allies, the large communist states of the former USSR and China. In 1990, the USSR and the ROK opened formal diplomatic relations and, by the 1990s, the collapse of the Soviet Union cut off an important source of economic and political support for the DPRK. After a break of twelve years since the DPRK sided with the former USSR in the Sino-Soviet clash of 1969, China and the DPRK had reestablished ties in 1982. Yet in 1990, China and the ROK began to encourage mutual trade and in 1992 established formal diplomatic relations. Beginning in 1993, China demanded that all its exports to the DPRK be paid for with cash instead of through barter. The DPRK found itself increasingly isolated and in severe economic difficulty. Reunification talks, and the DPRK's relations with the US, took on added urgency as the DPRK sought international recognition and economic aid.

In the first half of the 1990s, the DPRK's foreign relations revolved around issues of joint US-ROK military exercises and of nuclear capabilities. Repeatedly, since 1986, the DPRK canceled negotiations with the ROK during the annual "Team Spirit" exercises of US and ROK militaries. In 1991, the United States withdrew its nuclear weapons from the ROK and the two Koreas signed a bilateral agreement to create a nuclear weapons-free peninsula. Yet it was suspected that the DPRK was developing the capability to reprocess nuclear fuels and build nuclear weapons. (Both the ROK and Japan had stockpiles of plutonium.) Conflicts over the access of an International Atomic Energy Agency inspection team, which the DPRK allowed into North Korea in May 1994, to a reprocessing plant led to new tensions. These tensions were defused with an agreement for high-level talks between the US and the DPRK, previously refused by the United States, to be held on 8 July 1994, followed on 25 July by a summit in P'yongyang between the presidents of the two Koreas, the first such summit since Korea was divided in 1945.

On 8 July 1994, just as the US-DPRK talks were beginning, President Kim Il Sung died, and the talks were suspended. Kim Jong Il replaced his father as leader of the country, without assuming Kim Il Sung's previous titles of state president and general secretary of the Korean Workers Party. The official mourning period for Kim Il Sung was extended to three years.

On 10 September 1995 Russia advised the DPRK that it would not extend the 1961 treaty on friendship, cooperation and mutual assistance. The DPRK closed the Neutral Nations Supervisory Committee offices in the northern half of the joint security area at Panmunjim in an effort to dismantle the Military Armistice Agreement in May of 1994, following the expulsion of the Czech and Polish representatives and the withdrawal of China, one of the three original signatures to the agreement. This post-Cold War framework was designed to pressure the US into guaranteeing the DPRK's survival by means of a bilateral peace treaty. Marshall O Jen U, the armed forces supreme commander and the second in the hierarchy behind Kim Il Sung died 25 February 1995. He had been a prominent symbol of military acceptance of the younger Kim.

After he had served as North Korea's de facto leader for four years without formally being named as president, Kim Jong Il's position was made official. On 5 September 1998, the Supreme People's Assembly paid tribute to his father, Kim Il Sung, by permanently abolishing the post of president, which left Kim Jong Il, in his capacity as Chairman of the National Defense Commission, the nation's top political official. At the same session, the assembly approved a number of other changes to the nation's constitution.

Tensions over North Korea's nuclear capabilities were revived when it reportedly fired a three-stage ballistic missile into the Pacific; claims that the vehicle was a satellite launcher were initially greeted by skepticism on the part of the United States and Japan, over which it had been fired.

Widespread flooding, due in part to North Korea's efforts to expand the land under collectivization by massive deforestation, has led to a national famine. Relief efforts have not been able to raise nearly enough food to feed North Korea's starving population. The policies of North Korea's government have led to reticence on the part of those nations that normally would have contributed to the UN-sponsored World Food Program (WFP). Nevertheless, in 1998 the WFP mounted the largest aid effort on record in an attempt to save millions of North Koreans from starvation. That year the DPRK accepted nearly \$1 billion in food aid. Famine conditions continued through 1999 and into 2000, with the WFP issuing renewed calls for assistance from the international community.

As part of an effort to bring North Korea out of its self-imposed isolation, its government renewed the diplomatic initiative toward the South that had been interrupted by the death of Kim Il Sung in 1994. What became known as South Korean President Kim Dae-jung's "sunshine policy" of rapprochement toward the North resulted in the signing of a joint agreement at a summit in P'yongyang between Kim Dae-jung and Kim Jong Il in June 2000. In 2003, incoming South Korean President Roh Moo-hyun pledged to continue the "sunshine policy," but by then relations with North Korea had deteriorated due to revelations in October 2002 that North Korea was undertaking a program to enrich uranium for use in nuclear weapons. This revelation came on the heels of US president George W. Bush's January 2002 State of the Union Address, in which he labeled North Korea (along with Iran and Iraq) a state that endangers the peace of the world by supporting terrorism and pursuing weapons of mass destruction (chemical, biological, and nuclear weapons). In late 2002, North Korea accused the United States of not adhering to the Agreed Framework between the two countries, established in 1994, in that the US's construction of two light-water reactors in North Korea was far behind schedule. The North demanded the

International Atomic Energy Agency remove seals and surveillance equipment from its Yongbyon power plant, which the IAEA said was in danger of reprocessing spent fuel rods for plutonium.

In January 2003, North Korea announced it would withdraw from the Nuclear Nonproliferation Treaty. In March, four armed North Korean fighter jets intercepted a US reconnaissance plane in international air space over the Sea of Japan about 150 miles off North Korea's coast, and shadowed it for 22 minutes. The US plane broke off its mission and returned to its base in Japan, unharmed. On 1 April, the US announced that stealth fighters sent to South Korea for a training exercise were to remain there once the exercises ended. Later that month, talks were held between US and North Korean officials in Beijing; the talks ended in mutual recrimination, when US officials indicated the North had admitted it possessed nuclear weapons. The US on 6 June 2003 announced it would redeploy some of its 37,000 troops from the Demilitarized Zone (DMZ) between North and South Korea, in an attempt to enhance security and create a more agile and mobile force in the region. On 9 June, North Korea stated it would be necessary to develop a "nuclear deterrent" to reduce conventional weapons and funnel resources to programs that benefit its citizens, and to respond to the hostile stance taken by the United States with regard to North Korea.

### 13 GOVERNMENT

In theory, the highest organ of state power is the unicameral Supreme People's Assembly (SPA), with 687 members in 2003. In practice, however, governmental control rests with the leadership of the Korean Workers' (Communist) Party and the military. SPA members are elected every five years and meet for only a few days each year to ratify decisions made by other governmental and party organs. As part of a series of constitutional changes made by the SPA in its 1998 session, a Presidium was created to operate as the top governmental body between sessions of the SPA, performing functions that formerly belonged to a 19-member Standing Committee and the 24-member Central People's Committee.

Under the constitution (first adopted in 1948, completely revised in 1972, revisions in 1992 and 1998), the SPA also elected the president of the DPRK; however, as of 1998, following the death of Kim Il Sung four years earlier, the post of president was abolished. In addition, the responsibilities of the cabinet (formerly called the Administrative Council) were expanded.

The state ideology is self-reliance (Chuch'e or Juch'e), the Korean version of Marxism-Leninism that was formulated in 1930 and adopted by the party in 1955. Under the new constitution (which created the post of president), Kim Il Sung, who had previously held state power as premier (1948–72), was elected to the presidency in 1972 and reelected in 1977, 1982, 1986, and 1990. Kim Il Sung died 8 July 1994. Kim Jong Il assumed his father's responsibilities and was formally acknowledged as the nation's leader at the 1998 session of the SPA. Hong Song Nam has been Premier since September 1998.

Suffrage extends to all men and women 17 years of age or older. Elections are on a single slate of Communist-approved candidates, on a yes or no basis. Following elections, it is usually asserted that nearly all those eligible voted and that their votes were unanimous in favor of the candidates.

### 14 POLITICAL PARTIES

The Korean Workers' (Communist) Party, the ruling party of the DPRK, was formed on 10 October 1945 through a merger of the Communist Party and the New Democratic Party. By the mid-1980s, party membership was estimated to have risen to over 3 million, or about 16% of the population, the largest percentage of any Communist country. The principal party organ is the National Party Congress. The Congress adopts the party program

and approves the political line set by its Central People's Committee. The party constitution states that a congress is to be convened every four years; however, as of 2003, no party congress had convened since 1980.

To guide the party between sessions of the National Party Congress, the Congress elects a Central People's Committee and a Central Auditing Commission, which looks after the party's financial affairs. The Central People's Committee elects the 10 members of the Politburo or Political Bureau. At the top of the party hierarchy is the Presidium of the Politburo, of which the only remaining member is Kim Jong Il. The other members either died or were dismissed, and a new Politburo could not be appointed because the party congress has not met. In October 1997, Kim Jong Il was also named to succeed his father as general secretary of the party.

A "united front" policy confers nominal status on two ostensibly non-Communist political parties: the Korean Social Democratic Party, founded in 1945 and known as the Korean Democratic Party until 1981, and the Friends Party, founded in 1946 for adherents of the Ch'ondogyo faith.

### 15 LOCAL GOVERNMENT

Of Korea's 13 historic provinces (*do*), 6 were wholly or partly within the DPRK after 1945. The Communist regime subsequently established two new provinces and divided another into two sections, thus raising the number of provinces to nine: North P'yongan, South P'yongan, Chagang, North Hwanghae, South Hwanghae, Kangwon, North Hamgyong, South Hamgyong, and Yanggang. In addition there are four provincial-level cities under the central government (P'yongyang, the capital, and Kaesong, Najin Sonbong and Namp'o). The provinces are divided into cities (*si*), counties (*kun*), or districts (*kuyok*); and villages (*eup*), towns (*ri*), blocks (*dong*) or workers' districts. There are currently 24 ordinary cities, 146 counties, 31 districts, 2 subdistricts, 3,255 villages, 146 towns, 1,137 blocks, and 255 workers' districts.

There are people's assemblies and people's committees at all levels of administration. Members of the people's assemblies are elected for four-year terms at the provincial level and for two-year terms at the county, township, and village levels. The assemblies supervise public, economic, and cultural activities. They also elect and recall people's committees, which are the permanent executive and administrative organs of the state at the local level.

### 16 JUDICIAL SYSTEM

The DPRK's judicial system consists of the Central Court, formerly called the Supreme Court; the courts of provinces, cities, and counties; and special courts (courts-martial and transport courts). Most cases are tried in the first instance by people's courts at the city or county level. Provincial courts try important cases and examine appeals from lower court judgments. Members of the Central Court are named by the Standing Committee of the SPA; lower courts are appointed by the people's assemblies at the corresponding level. A prosecutor-general, who is also appointed by the SPA, is the country's chief law-enforcement officer. He appoints prosecutors at the provincial, city, and county levels. Paralleling the court system is the Central Procurator's Office, a supervisory and investigative body.

Judges at the city and county levels serve two-year terms and are usually Korea Workers' Party members. Prosecution of alleged crimes against the state is conducted outside the judicial system and in secret. Reports from defectors in 2002 were that 150,000–200,000 political prisoners and family members were being detained in DPRK security camps in remote areas.

The constitution declares that courts shall be independent and that judicial proceedings must be conducted according to elaborate procedural regulations. In practice, however, the

principles of procedural due process as guaranteed by Western democratic systems are not respected.

The constitution provides for the protection of the inviolability of person and residence, and the privacy of correspondence. However in practice these protections are not always afforded.

## 17 ARMED FORCES

Out of an estimated total of 1,082,000 personnel on active duty in 2000, 950,000 were in the army, 46,000 in the navy, and 86,000 in the air force. An additional 4.7 million were in the reserves, and there was a civilian militia of 3.5 million. Equipment includes some 3,500 main battle tanks, 26 submarines, and 620 combat aircraft. The DPRK has admitted to developing a nuclear weapons program. North Korea provides advisors to 12 African countries. The Ministry of Public Security controls 189,000 internal security forces. Defense expenditures in 2001 totaled an estimated \$5.1 billion or 31% of GDP. Because of the secrecy inherent in the DPRK, reliability of the figures provided is uncertain, as is information on the combat readiness of its forces.

## 18 INTERNATIONAL COOPERATION

During the mid-1970s, the DPRK came out of its relative isolation to pursue a vigorous international diplomacy. By 1986, it had diplomatic relations with 103 countries, including 67 that also had relations with the ROK. The DPRK is a member of the UN and certain non-regional specialized UN agencies, including FAO, ICAO, IFAD, IMO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, and WMO. The nation has signed the Law of the Sea and has been particularly active in third-world diplomacy; in August 1975, the DPRK entered the League of Non-Aligned Nations, and it has since joined G-77. The DPRK retains treaties of friendship, cooperation, and mutual defense concluded with China and the republics of the former USSR in 1961. The DPRK was the only Asian Communist country to remain neutral in the Sino-Soviet dispute. The DPRK withdrew from the Nuclear Nonproliferation Treaty in 2003.

## 19 ECONOMY

The Korean War devastated much of the DPRK's economy, but growth after postwar reconstruction was rapid. The Communist regime used its rich mineral resources to promote industry, especially heavy industry. A generally accepted figure put annual industrial growth from 1956 to 1963 at about 25%. By 1965, industry accounted for 78% of the total output, and agriculture 22%, an exact reversal of their respective contributions in 1946. Until the oil crisis of the 1970s, the DPRK ranked as one of the most prosperous states in Asia, but the government's pursuit of self-reliance (*juche*) had, by the end of the 1960s, also transformed it into one the most isolated and strictly regulated economies in the world. After 1965, greater emphasis was placed on agriculture and light industry, the latter stress owing to increasing demands for consumer goods. The industrial growth rate slowed in the late 1960s to around 14% and averaged about 16% during the 1970s. In the meantime, the military government in South Korea—the Republic of Korea or ROK—starting in 1962, began a series of Five Year Plans that set it on the trajectory of export-led growth that would by 2001 produce a per capita income 19 times greater than that in the DPRK. Efforts in the DPRK to accelerate the growth rate during the mid-1970s, requiring substantial imports of heavy industrial equipment from Japan and Western Europe, led to a payments crisis, and the DPRK was repeatedly compelled to reschedule its foreign debt.

The seven-year plan for 1978–84 called for an annual increase in industrial output of 12%. Reliable data on the economy became increasingly difficult to obtain as Kim Il Sung's regime became more obsessed with passing power and his particular vision on to his son, Kim Jong Il. In the 1980s the government

also became seriously involved in the clandestine supply of missiles and nuclear technology to Pakistan and Middle East countries, particularly Iran. Estimates are that growth fell to no more than 2% or 3% in the early 1980s as about one-fourth of output went into the country's outsized military.

After a three year "period of adjustment" the government announced its third Seven-Year Plan for 1987 to 1993, which targeted an annual increase in industrial growth of 10%. The plan also called increased allocations to agricultural production, fueling speculation that there were food shortages. In any case the plan period spanned three watershed events that helped set the economy on its downward course. First was the ROK's successful hosting of the 1988 Olympics, which left the DPRK increasingly isolated due to its own refusal to co-host any events and instead to boycott the games. Second was the break-up of the Soviet Union in 1991, cutting off the DPRK's main sources of trade and aid. Third was the admission of the ROK and the DPRK to the UN in 1991 as separate states, unblocked by a veto from either Russia or China. On 8 July 1994, Kim Il Sung died, throwing the society into mourning, but also, it was hoped, opening up opportunities for economic reform. In October 1994, the so-called Agreed-Framework was put together whereby a consortium of the United States, the ROK, and Japan, organized as the Korean Peninsula Energy Development Organization (KEDO), would undertake to provide for the finance and construction of light-water nuclear reactors (LWRs) to supply 2000 MW of power in 2003 plus an interim supply of 500,000 metric tons of fuel oil a year in exchange for the DPRK's freezing and eventually dismantling its heavy-water nuclear facilities that were readily convertible to weapons use.

In January 1995 the United States sent a first installment of 50,000 tons of fuel, but in 1995 and 1996 the North Korean population became victims of widespread malnutrition and famine, worsened by the government's rejection of outside observers and reluctance to admit the seriousness of the situation, despite its unprecedented appeal for foreign aid in 1995. Lacking money to fuel and repair tractors, and to pay for fertilizer, the government had called for and/or allowed the cultivation of marginal land with professed target of doubling food production. The counter-productive result was crop-destroying flooding in 1995 and 1996 when the country was hit by heavy rains and a typhoon because the removal of tree cover from hillsides through the cultivation of marginal land made flooding worse. Drought conditions that followed worsened not only the food shortage but also the energy shortage by reducing the output from hydroelectric facilities. By 1997, most North Koreans had come to depend on government rations, which were reduced to 3.5 to 5.3 oz. per person a day. In 1997 construction began on what were now to be two 1000 MW LWRs, delayed many months by North Korean objections to the use of a South Korean firm for the job. Estimates are that in real terms the DPRK economy contracted 6.8% in 1997 and another 1.1% in 1998. In 1999, there were signs of positive growth, though small and from a low base, and due mainly to government construction projects.

The Bank of Korea, the most reliable source of economic data on the DPRK, estimates that the economy expanded 1.3% in 2000 and 3.7% in 2001. In 2002, albeit unannounced, a series of market-oriented reforms were undertaken. Refugees reported wage increases of 10% to 20% that partly reflected the higher prices in the unofficial "farmer's markets" and black markets, and that state rationing was being phased out. Three new special economic zones (SEZs) were announced, making a total of four (the first one established in 1991), designed to attract foreign investment, particularly from China and South Korea. A defector reported a significant reduction in the party personnel attached to two major state corporations, the Musan Consolidated Mine Corporation and the Kimchalk Consolidated Steel Corporation. Whether such reforms were meant to appease the more



confrontational Bush administration, which, through US president George W. Bush's State of the Union address in January 2002, had branded North Korea as part of an "axis of evil." In November 2002 the United States announced that it was suspending oil shipments, and that the work on the LWRs was going to be deliberately slowed. In December 2002, the DPRK expelled the last IAEA inspectors and removed their monitoring devices. In February 2003, the IAEA referred the matter of the DPRK's nuclear program to the UN Security Council. The program of economic inducements has been transformed into a zero-sum confrontation.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 North Korea's gross domestic product (GDP) was estimated at \$22 billion. The per capita GDP was estimated at \$1,000. The annual growth rate of GDP was estimated at 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 30% of GDP, industry 32%, and services 37%. Foreign aid receipts amounted to about \$5 per capita.

## 21 LABOR

The labor force was estimated at 9.6 million in 2001. Approximately 36% of the labor force was engaged in agriculture.

There are no free trade unions in North Korea; instead there is one labor organization controlled by the government, the General Federation of Trade Unions of Korea, of which virtually all industrial and office workers are members. There is no minimum wage; salaries in joint venture and foreign-owned businesses were estimated at \$110 per month in 2002. The average salary in the public sector is not known. Labor conditions are governed by a national labor law of 1978. The eight-hour workday is standard but most laborers work 12-16 hours daily during production campaigns. Although children under the age of 16 are prohibited by law from working, school children work in factories or on farms to meet production goals. Office and shop workers spend Fridays in public works and urban maintenance projects. In addition, some work time is spent on mandatory study of the writings of Kim Il Sung and Kim Jong Il.

## 22 AGRICULTURE

About two million hectares (4.9 million acres), or 16% of all land, can be classified as arable. Most of the agricultural land is concentrated in the west-coast provinces of North and South P'yongan and North and South Hwanghae. Irrigation, land reclamation, and flood-control projects have been carried out, especially in rice-growing areas; about one-half of the arable land is irrigated.

Rice is the principal crop, occupying 29% of all farmland in 1999. Total rice production was put at 2,343,000 tons in 1999, compared to 5.6 million tons in 1985. Improved rice yields have been achieved through the use of "miracle" rice strains, intensive application of fertilizer, and mechanization. In 1998 there were some 75,000 tractors in use, or about one for every 27 hectares (67 acres) of cultivated land. Double-cropping of rice is not possible because of the climate, but double-cropping of other grains has been maximized through the use of cold-bed seeding and new seed varieties, so that an estimated half of all cultivated land yields two harvests. The leading grains after rice are corn, wheat, millet, and barley. Other important crops include soybeans, potatoes, sweet potatoes, pulses, oats, sorghum, rye, tobacco, and cotton. The DPRK long claimed to be self-sufficient in grain products, with total production (including rice) increasing from seven million tons in 1974 to 13.6 million tons in

1985, but falling to 4.0 million tons in 1999. Heavy rains in 1995 caused severe flooding in the DPRK, affecting over 5.2 million people and damaging crop production. Since 1996, there have been reports of widespread food shortages and famine in the DPRK.

The country's farms were collectivized after the Korean War. The movement began late in 1953, and the process was completed by August 1958, when all of the DPRK's 1,055,000 farm families had become members of over 16,000 cooperatives. In order to establish larger and more efficient operating units, the cooperatives were merged in the autumn of 1958 into approximately 3,800 units with about 300 families each. Produce is delivered to the government, which controls distribution through state stores. Most farm workers retain small private plots (less than 100 sq m/1,100 sq ft) and can sell produce from them to the state or in peasant markets.

## 23 ANIMAL HUSBANDRY

Since the 1950s, a major effort has been made to increase corn and fodder supplies, to improve breeding practices, and to raise sharply the numbers of livestock in all categories. In 2001, livestock totals were estimated as follows: cattle, 1,570,000 head; hogs, 3,137,000; sheep, 189,000; goats, 2,566,000; and horses, 47,000. Livestock raising is generally associated with the state farms. Meat produced in 2001 totaled 210,000 tons; milk, 92,000; and eggs, 120,000.

## 24 FISHING

The catch from the sea and from freshwater aquaculture includes mackerel, anchovy, tuna, mullet, rainbow trout, squid, kelp, sea urchin eggs, pollack eggs, and shrimp. The FAO estimated production for 2000 was 200,850 tons. About 90% of fishing activity is marine, concentrated in the Sea of Japan. Much of the annual catch is now used for export.

The fishing industry is entirely socialized, with some 230 maritime cooperatives and more than 30 state-run fishery stations. The main fishing ports are on the east coast.

## 25 FORESTRY

Forests and woodland comprised about 8,210,000 hectares (20,287,000 acres) in 2000. There are rich stands of coniferous forests in the northern provinces. Predominant trees include oak, alder, larch, pine, spruce, and fir. Timber production was estimated at 7 million cu m (247 million cu ft) in 2000. About 80% of the timber cut was used for fuel. Sawn wood production in 2000 was 280,000 cu m (9.9 million cu ft); wood pulp, 56,000 tons; and paper and paperboard, 80,000 tons. The Ministry of Forestry, created in 1980, promotes development of forest industries.

## 26 MINING

Minerals and metallurgical products were North Korea's top two export commodities in 2002, and chemicals manufacturing, mining, and metallurgy ranked fourth, fifth, and sixth, respectively, among the country's top industries. The leading minerals were coal, iron ore, magnesite, graphite, copper, zinc, lead, and precious metals. The mining and construction sectors grew by 5.8% and 13.6%, respectively, and GDP grew by 1.3% in 2000 and 6.2% in 1999. Gross weight of marketable iron ore and concentrate produced in 2000 was 700,000 tons, down from 1 million tons in 1997. High-grade iron ore deposits lay off the coast of Unryl county, South Hwanghae Province. Outputs of other minerals included crude magnesite, 1.0 million tons, down from 1.5 million tons in 1998; graphite, 30,000 tons, down from 40,000 in 1997; mine copper (metal content), 14,000 tons; zinc, 190,000 tons; lead, 70,000 tons; gold (metal content), 5,000 kg; silver, 40 tons, down from 50 in 1997; sulfur, 240,000 tons; phosphate rock, 350,000 tons, down from 520,000 in 1997; and

tungsten, 700 tons, down from 900 in 1997. North Korea also produced barite, hydraulic cement, fluorspar, nitrogen, salt, and pyrophyllite soapstone, and presumably produced varieties of stone, and sand and gravel. As North Korea began emerging from its isolation, mineral trade with the Republic of Korea increased, with the DPRK exporting coal, gold, steel, and zinc to the south. Since the collapse of the Soviet Union, North Korea has faced shortages of raw materials, in addition to shortages of fuel, food, and electricity. Molopo Australia NL had four gold projects in North Korea—Big Boy, Changjin, Danchon, and Hambung—and successfully processed 625 g of gold from a gravity separation plant in Changjin.

## 27 ENERGY AND POWER

Coal, oil, and natural gas provided 32.6% of the DPRK's electricity generation in 2000. Hydroelectricity accounted for the remainder. Coal is by far the most important component of energy production. The major coal-producing center is in South Pyongan Province, where the Anju, Sunchon, Tokchon, Pukchang, and Kaechon coal-producing complexes are located. In 2000, coal accounted for 86% of primary energy consumption. Estimated coal production in 2000 was 101.4 million tons, and domestic consumption was 103.6 million tons that year. Installed electric capacity was 9.5 million kW as of 2001. Production of electricity in 2000 totaled 30.8 billion kWh, up from 9.1 billion kWh in 1960 but down from 51.9 billion kWh in 1991. Consumption of electricity in 2000 was 31 billion kWh. In 1998, engineers and technical advisers from the United States assisted with the installation of windmills in coastal villages in the P'yongyang region.

In 1986, the former USSR agreed to the construction of a nuclear power plant with an expected capacity of 1.8 million kW. In the same year, a hydroelectric power station at Taipingwan, jointly built by China and the DPRK, began operations. In February 1994, North Korea agreed to UN-supported demands that it open part of its nuclear program to international inspections. The International Atomic Energy Agency (IAEA) began inspections of North Korean nuclear facilities in March 1991 (almost one year after North Korea withdrew from the Nuclear Non-Proliferation Treaty), in order to determine whether or not North Korea was reprocessing spent nuclear reactor fuel, which could be used to make a nuclear weapon. During 1995 the IAEA was still trying to verify the status of the nuclear material, as the DPRK had agreed to some safeguard measures but declined to accept others. As of 2000, nuclear energy in North Korea continued to arouse security concerns as it involves graphite technology that could be applied to the construction of nuclear weapons. The North Korean government was generally regarded as refusing to cooperate with IAEA inspectors by 2000.

## 28 INDUSTRY

Under Japanese rule, northern Korea was regarded mainly as a supplier of war materials, while manufacturing and processing branches were neglected. The Communist regime, however, emphasized the development of manufacturing. By 1963, the metal-fabricating, textile, and food-processing industries accounted for 33%, 18.6%, and 13.7% of industrial output, respectively. By the late 1980s, heavy industry (including metal fabricating and textile production) accounted for 50% of total industrial production. Private enterprise in industry declined from 27.6% of total output in 1946 to only 2% in 1956, and the private sector was said to have disappeared by 1959. About 90% of all industry is state-owned, and 10% is owned by cooperatives.

Under the Second Seven-Year Plan (1978–84), industrial output was scheduled to grow at an average annual rate of 12.2%; however, Western estimates put annual growth at 2% or 3% by the early 1980s. In the mid-1980s, the government became involved in clandestine missile production and supply.

The DPRK had obtained the technology for producing HY-2 Silkworm and Scud (short-range) missiles in the 1970s and early 1980s. In 1985 the DPRK reached a bilateral accord with Iran, then in the midst of its war with Iraq, whereby North Korea would supply production technology and missiles in exchange for payments to finance engineering of the Scud-B missiles (a more accurate version of the original Scuds) and help in covert procurement of other necessary technologies. Ironically, because it became a matter of international security concern, the missile program is better documented than other aspects of the DPRK's secretive economy.

In 1987, Scud-B production facilities were established near P'yongyang. In June 1987, North Korea delivered 90 to 100 Scud-B missiles, 12 launchers, and an undetermined number of HY-2 Silkworm missiles to Iran as part of the two countries' \$500 million military assistance agreement. In the meantime, the DPRK had established its own Scud-B regiment and begun work on an upgraded model, the Scud-C, with double the range (595 km/372 mi). Iran was being supplied "knock-down kits" for assembly at its ballistic missile plant in Isfahan. Iran continued in exchange to finance the DPRK's weapons program as it began work on an intermediate-range ballistic missile (IRBM) at Nodong that would give it its name.

In June 1990, the DPRK conducted the first successful test of the Scud-C, and in November concluded a second series of agreements with Iran believed to have covered the purchase of DPRK Scud-Cs and the conversion of an Iranian missile-maintenance facility into a production facility. In December 1990, during the run-up to the Gulf War, the DPRK also agreed to sell Scud-B and Scud-C missiles to Iraq, but in February 1991, despite a personal visit from Iraq's deputy foreign minister, the DPRK backed out of the deal because of Iraq's inability to pay cash. Syria, having received \$2 billion for participating on the side of the coalition, used some of it to purchase more than 150 North Korean Scud-C missiles for an estimated \$500 million. In March 1991, in a third agreement with Iran, the DPRK signed a five-year contract for the supply of 20,000 barrels of oil per day.

Pakistan, which North Korea had been supplying with conventional arms since the war over East Pakistan in 1971, helped with the secret deliveries of Scud-Cs to Iran. During the two tenures of Pakistani prime minister Benazir Bhutto (1988–90 and 1993–96), the cooperation with the DPRK was extended to include the training of Pakistani scientists and engineers in North Korea, the training of North Korean scientists and engineers at the Pakistan uranium enrichment plant at Kahuta, and the supply of Nodong missiles to Pakistan.

On 27 March 1992 the United States announced the imposition of sanctions on the DPRK and Iran for missile technology proliferation. In the mid-1990s, the DPRK recruited an estimated 160 Russian strategic weapons specialists to help with the DPRK's missile and nuclear programs. On 12 March 1993 North Korea announced its withdrawal from the Nuclear Nonproliferation Treaty (NPT) because of the International Atomic Energy Association's (IAEA's) efforts to conduct a special inspection of its nuclear facilities. During the spring of 1993, the successful launch of four missiles, one of which hit a target at 500 km (300 mi), raised international alarm to a new level. All the while, the DPRK representative to the UN denied that the government had ever supplied missiles to Iran.

In August 1993 a defector reported that two additional long-range missile bases had been built in DPRK, one at Chunggang and the other at Wonsan. In a report issued in 1996, the South Korean Unification Ministry estimated that arms exports constituted about 30% of DPRK exports 1980 to 1993, that annual Scud missile sales totaled about \$500 million, and that the DPRK had a production capacity of about 100 Scud-B and Scud-C missiles a year.

The consequence of DPRK's role as arms supplier to the Middle East was increasing isolation elsewhere. Japan banned the export of missile-related technology to the DPRK in 1988. In 1991 when the Soviet Union collapsed, North Korea lost its main source of fuel and fertilizer, as well as its main markets. As a result, the DPRK's nonmilitary industries atrophied while the government continued to build its military industry, developing nuclear ambitions.

At the end of its Third Seven-Year Plan the government, admitting for the first time that targets had not been met, announced another three-year period of adjustment including a promised attention to light industry, as well as agriculture and foreign trade. In March 1994, however, it was confirmed that the government was building two new medium-range missiles—the Taepodong-I with a range of more than 1,600 km (1,000 mi) and the Taepodong-II with a range of more than 3,200 km (2,000 mi).

Manufacturing output had fallen an estimated 17.8% in 1992 and continued to fall by 1.9% in 1993, 3.8% in 1994, and 5.3% in 1995. In 1995, manufacturing accounted for an estimated 26.9% of GDP, of which heavy industry accounted for 20.5% and light industry 6.4%.

Only rough production estimates are available for a few key industries. These include the iron and steel manufactures, which reportedly amounted to 6.6 million tons of pig and conversion pig iron and 8.1 million tons of steel (including rolled steel) in 1995. Major iron and steel works are located at Ch'ongjin, Kimch'aek, Kangso, Namp'o, and Kaesong. Industrial plants produce sophisticated machinery, including generators, bulldozers, high-speed engines, and diesel locomotives. Other plants produce cement (17 million tons in 1995), refined lead (80,000 tons), and zinc (200,000 tons), metal cutting lathes, tractors, and trucks. The chemical industry produced an estimated 1.2 million tons of chemical fertilizers and 56,000 tons of synthetic fibers in 1994. The petrochemical industry is centered in the Hungnam area. Oil refining capacity was recorded at approximately 71,000 barrels per day in 2000. Textiles production increased rapidly in the 1970s; North Korea also produces clothing, jackets, and shoes.

After a series of negotiations in 1994, the so-called Agreed Framework was signed in October. It was essentially an attempt to use economic incentives to induce the DPRK to give up its nuclear weapons ambitions. In exchange for a freeze on its graphite-moderated reactors, the United States undertook to arrange for the provision of a 2000 MW Light Water Reactor (LWR). In the contract concluded in 1996 with the Korea Electric Power Company (KEPCO), DPRK was to acquire two 1000 MW LWRs. The Korea Peninsula Energy Development Organization (KEDO) was established to carry out the arrangements. Ground was broken for the construction of the LWRs in August 1997. While the DPRK's nuclear program apparently remained frozen, the government continued to develop its delivery systems and to export weapons and weapons technology.

In April 1998 the US government reported that Korea had helped develop Pakistan's 1,500-km (940-mi) Ghauri intermediate-range ballistic missile. Exports of Scuds continued to Iran, Syria, Pakistan, Egypt, and Libya. On 15 September 1998, DPRK successfully launched its first artificial satellite into orbit using a multistage rocket. In February 1999, US CIA director George Tenet warned that the DPRK was developing a new generation of missiles capable of delivering payloads to the United States. In March 1999, the ROK reported that the DPRK had as many as eight missile factories and twelve missile bases, with production capacity of about 100 Scud-like missiles a year. In mid-July, intense pressure from the United States, the ROK, and Japan dissuaded the DPRK from test-launching a Taepodong-2 missile believed to have a range of 3,800 km (2,400 mi). In September 1999, the US and DPRK reached an agreement

on a moratorium on additional long-range missile testing, but an agreement on a wider freeze on its indigenous missile program and its weapons exports was not completed as of early 2003.

## 29 SCIENCE AND TECHNOLOGY

The Fifth Party Congress in 1970 called for the education of one million new technicians and specialists to aid economic modernization and development. By the mid-1990s, the government claimed that there were agricultural specialists on most rural cooperatives, although severe economic deprivation has curtailed DPRK agricultural output. Throughout this period, Russian and Chinese technicians helped train DPRK workers, and the DPRK actively sought to acquire advanced foreign technology through the importation of entire petrochemical and other manufacturing plants from Japan, France, Sweden, and other developed nations. In the 1990s, its nuclear energy program—with both peaceful and military applications—gained international attention.

The principal scientific and technical institutions are the Academy of Sciences (founded in 1952), the Academy of Agricultural Science (founded in 1948), the Academy of Fisheries (founded in 1969), the Academy of Forestry (founded in 1948), the Academy of Medical Sciences, the Academy of Light Industry Science (founded in 1954), and the Academy of Railway Sciences. All of these academies are located in P'yongyang, and each has numerous attached research institutes.

By 1994, Kim Il-sung University in P'yongyang (founded in 1946) included faculties of computer science, chemistry, biology, atomic energy, geology, mathematics, and physics. Also in P'yongyang are the Kim Chaek University of Technology, the P'yongyang University of Agriculture, and the P'yongyang University of Medicine.

## 30 DOMESTIC TRADE

Wholesale and retail trade is almost entirely in state and cooperative hands. In 1946, private trade accounted for 96.5% of total business volume. By 1960, private merchants had been entirely eliminated, and 78.8% of trade was conducted by the state, 20.4% by cooperatives, and 0.8% by farmers' markets. In 2000, 90% of the economy was in the State's hands.

Wholesale distribution is administered by the state ministries and enterprises, under the general jurisdiction of the Ministry of Material Supply. Most retail shops are run by the People's Service Committee, established in 1972. There are several state-run department stores in P'yongyang, and there is at least one in each provincial capital. All-purpose stores, cooperatives, factory outlets, and special stores for the military and for railroad workers also play an important part in retailing.

Normal business hours are from 9 AM to 12 noon and 1 to 6 PM, Monday–Friday. Saturday is a “study” day.

Since the mid-1990s, the domestic economy has remained stifled as the government refuses to give up state control of industry. Though agriculture accounted for 30% of the GDP and 36% of the workforce in 2001, there were frequent food shortages. Improvements in industry and infrastructure have been slow, as the government continued to dedicate a large portion of funds to military, rather than social or domestic, concerns. With the decay of the formal economy, black market activity has rapidly grown throughout the country, with the underground economy replacing formal domestic trade throughout much of the DPRK.

## 31 FOREIGN TRADE

The DPRK's principal exports include rice, pig iron, rolled steel, cement, machinery of various types, chemicals, magnetite, textiles, armaments, and gold. Imports include petroleum, coking coal, wheat, cotton, and machinery. A steep drop in the DPRK's trade earnings in the early 1990s was primarily a result of a

policy shift by Russia and the CIS countries requiring trade to be denominated in hard currency at world prices, ending a previous goods exchange arrangement much more favorable to the DPRK situation. No published trade figures were available from the DPRK government as of 2003.

With the change in Russian-North Korean trade relations, China took the lead as the DPRK's largest trading partner in 1992, followed by Japan and Russia. Inter-Korean trade expanded particularly rapidly after 1988. By 1992, the ROK became the DPRK's fourth-largest trading partner, behind China, Japan, and Russia. Total trade between the two countries was reported to have reached \$199 million, 90% of which consisted of exports from north to south. However, after tensions flared in the late 1990s, inter-Korean trade slowed.

As the the DPRK economy has deteriorated, smuggling activity across the Chinese border has increased. An estimated 100,000 people are involved in illegal trade across the border, which may be worth as much as \$30 to \$300 million per year.

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	197	193	4
China (inc. Hong Kong)	83	425	-342
Bangladesh	52	1	51
Saudi Arabia	44	3	41
Brazil	43	72	-29
Lebanon	36	n.a.	n.a.
India	32	41	-9
Germany	27	27	0
Ireland	11	119	-108
Russia	8	54	-46

### 32 BALANCE OF PAYMENTS

During the late 1970s, the DPRK enjoyed consistent trade surpluses, due in part to increasing shipments of agricultural products, gold and silver, and armaments in exchange for hard currencies. Despite the improving trade picture, the DPRK had still not emerged from the shadow of foreign debt left over from the mid-1970s. Declining prices for precious metals in the early 1980s made it difficult for the nation to meet its debt obligations, even after repeated rescheduling. In 1987, a new rescheduling agreement was reached after Western banks threatened to freeze the DPRK's bank assets if it failed to service bank loans. External debt was estimated at \$12 billion in 1996. In the early 2000s, the government was focusing on attracting foreign aid and earning hard currency without introducing market reforms. Desperately needed food and fuel aid from donor countries declined in 2002/03, due in part to the government's threats of nuclear weapons capabilities.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of North Korea's exports was \$826 million while imports totaled \$1.874 billion resulting in a trade deficit of \$1.048 billion.

### 33 BANKING AND SECURITIES

The Central Bank, established in 1946, is the sole recipient of national revenues and the repository for all precious metals. It supplies basic operating funds to various sectors of the economy and is subordinate to the Ministry of Finance. The Central Bank is also an administrative organ that executes the fiscal policies of the State Planning Commission. It supervises the Foreign Trade Bank, established in 1959, and the Industrial Bank, established in 1964. The latter provides loans and credits to farm and fishing cooperatives and has an extensive system of branches which help to manage the financial operations of all cooperatives.

The Kumgang Bank is a specialized bank that handles transactions of foreign trade organizations dealing with exports

and imports of machinery, metals, mineral products, and chemical products. The Daesong Bank handles transactions of the Daesong Trading Co. and other trading organizations. There were also three joint venture banks, as of 1994. As of 1997, the Central Bank had a network of 227 local branches. Another state bank is the Changgwang Credit Bank, founded in 1983. A consortium of 60 Western countries (including Russia) filed suit in 1996 in a US district court against the DPRK's Foreign Trade Bank for a total of \$1.4 billion in principal and accumulated interest.

There are savings facilities at all post offices, in industrial enterprises, and in the "trust" sections in the agricultural cooperatives. Through the latter, large farm and fishing cooperatives perform local banking functions, especially the raising and allocation of capital for local needs.

There are no securities exchanges in the DPRK.

### 34 INSURANCE

The State Insurance Bureau and the Korea Foreign Insurance Company carry fire and natural disaster insurance and, as appropriate, livestock, marine, and passenger insurance on a compulsory basis. Individuals may take out various types of property, life, and travel insurance, all provided by the government.

### 35 PUBLIC FINANCE

The annual state budget is approved at regular sessions of the Supreme People's Assembly (SPA). In April 1995, the government failed to announce its 1995/96 budget at the annual meeting of the SPA, which exacerbated the economic stagnation. Foreign aid, important after the Korean War, has not appeared as budgetary income since 1961.

The US Central Intelligence Agency (CIA) estimates that in 1992 North Korea's central government took in revenues of approximately \$19.3 billion and had expenditures of \$19.3 billion. Total external debt is estimated to exceed \$12 billion, 75% owed to OECD countries.

### 36 TAXATION

All direct taxes were abolished in 1974; the DPRK thus became the first country in the world to abolish income taxes collected from its citizens. As a result, the population is dependent on the government for many services. The government collects a percentage (turnover tax) on all transactions between producers and state marketing agencies. Fees are charged to farmers for seeds, fertilizer, irrigation water, and equipment. Consumers pay a tax for the use of water and certain other household amenities. The tax on collective farms is 15% of the harvest, paid in kind. Refugees from North Korea report that a similar in-kind tax was being assessed on the private plots that proliferated during the 1990s, but there is no official confirmation of this assessment.

All foreign-invested enterprises are subject to income, property, turnover, and local taxes. In the four special economic zones established by the government, one in 1991 and three in 2002, the tax on profits for most enterprises is set at 14%; for enterprises involving high technology, infrastructure construction, or light industry, the tax rate is 10%. Resident aliens in the DPRK must pay personal income taxes; the rate varies from 4% to a top rate of 20%.

### 37 CUSTOMS AND DUTIES

No information is available.

### 38 FOREIGN INVESTMENT

In 1984, the Joint Venture Act permitted foreign direct investment (FDI) for the first time. Investment mainly came from Soviet bloc countries, however, as both the United States and South Korea were closed to products from the DPRK. Companies

found it difficult to do business in North Korea because of limits to equity ownership and a suffocating bureaucracy. In any case, the law was abruptly withdrawn in 1985, reinforcing perceptions of an unstable atmosphere for business.

In 1991, faced with the collapse of the Soviet bloc, the president announced plans to establish a multinational special economic zone (FETZ) in the Tuman River estuary region. On 11 December 1992 the Supreme People's Assembly passed three laws relating to foreign investment—the Foreign Investment Law, the Foreign Enterprise Law, and the Joint Venture Law. The laws allowed 10% foreign ownership and loosened government control over employee layoffs. Three types of enterprises were distinguished: contractual joint ventures, equity joint ventures, and “foreign enterprises.” Citizens of the ROK are treated as foreigners under the investment laws. Foreigners are prohibited from establishing a “technologically backward” enterprise, or one that threatens DPRK national security. In practice the most suspect categories are those involved in publishing, the press, broadcasting, and telecommunications. Also not permitted are businesses that do not conform with the “ideological emotions of the people.”

Most trade with ROK enterprises is conducted in the contractual joint venture mode in which, typically, the DPRK partner take responsibility for production and management while the ROK partner supplies both advanced technology and access to export markets. Most meetings between North and South Korean partners are held outside both countries. Applications for investment have remained limited; most have come from Japan-based Korean investors. As of 2002, the FETZ could not be rated very successful. The investment attracted totals about \$140 million. The main investors included the Emperor Group with a \$60 million hotel project, and Loxley Pacific with a \$29 million investment telecommunications infrastructure.

In 2002 the DPRK formally established three more special economic zones: a mainly tourist zone at Mount Kumgang, an industrial zone near Kaesong, and an special autonomous region (SAR) modeled on Hong Kong in the northwest city of Sinuiji on the Chinese border. In all three, free enterprise was officially guaranteed with a land lease period of 50 years with the possibility of extension. The Mount Kumgang and Kaesong zones were mainly aimed at attracting South Korean investment, whereas Sinuiji is designed to attract Chinese participation.

The Mount Kumgang zone is a direct descendant of a money-losing tourism enterprise initiated by the ROK conglomerate, Hyundai Group, in 1999. Tours peaked at about 212,000 in 2000, the year of the historic 13 June handshake between the leaders of the two Koreas, but had fallen to 56,680 by 2001. As of 2002, the Hyundai group had lost about \$400 million on the operation.

The Kaesong industrial zone also got its main impetus from firms connected with the Hyundai Group. Though the official decree establishing a 66-sq-km (25-sq-mi) “international industrial, trade, commercial, financial and tourist” zone was made law 28 November 2002, its roots are in an agreement between the Hyundai Group and the DPRK government in August 2000 to open an expanded industrial zone. Kaesong is connected to P'yongyang by railway and expressway. To make it a viable investment venue, the rail and highway connections to South Korea must be restored. In late December 2002, however, the third session of talks on the restorations of connections was called off, with no further discussions scheduled.

Much more devastating to hopes for increased foreign investment, however, has been the rapid escalation of tensions after October 2002 when a US State Department envoy asserted that the North Koreans had admitted to conducting a secret nuclear program. In November 2002, the United States announced that there would be no more oil supplied through the Korea Peninsula Energy Development Organization (KEDO).

The United States also achieved an agreement to slow down the construction of the Light Water Reactors (LWRs), which were already years behind schedule. In apparent retaliation, a letter from a North Korean bank was circulated to foreign missions and businesses stating that as of 1 December 2002 US dollars would not be accepted at North Korean shops and hotels.

By late December 2002 all IAEA inspectors had been expelled from DPRK, and all IAEA monitoring devices had been removed. In February 2003, the IAEA referred the matter of North Korea's nuclear program to the UN Security Council.

### 39 ECONOMIC DEVELOPMENT

Until the 1990s, the economy operated on a planned basis, with priority given to the development of industry, particularly heavy industry. Planning began in 1947, when the economy operated first under two consecutive one-year plans (1947 and 1948), followed by a two-year plan (1949–50), which was interrupted by the Korean War in June 1950. After the war, economic reconstruction followed the terms of a three-year plan (1954–56) and a five-year plan (1957–61). The industrial goals of the five-year plan were fulfilled in just half the allotted time, so 1960 was set aside as a year of adjustment. An ambitious seven-year plan was then launched in 1961, with the general objectives of a 220% increase in industrial output and a 150% rise in grain production. This plan had to be extended until 1970, however, before its targets were fulfilled. In 1975, the DPRK announced completion of its six-year plan (1971–76) one year ahead of schedule, although certain outputs fell somewhat short of projected levels. Industrial growth slowed in 1976. A second seven-year plan (1978–84) called for a 12% annual industrial growth rate. Although the government claimed that its goals had been met or exceeded, neither the actual results nor a new plan was announced during the following three years. During this period the DPRK experienced the double trauma of ballooning international debt (to more than \$5 billion, nearly \$2 billion owed to Communist creditors), and watching South Korea's per capita income soar past its own. By 1980, per capita income in the DPRK was about a third of that in the ROK. (By 2002 the gap had widened such that the ROK's per capita income was 20 times greater in nominal terms.)

In 1982, the president announced a new economic policy giving priority to increased agricultural production through land reclamation (taken as a sign that food shortages had appeared), development of the country's infrastructure, a greater reliance on indigenously produced capital equipment, and an emphasis on light industry. In 1984, the government issued the Joint Investment Law in its first opening to foreign direct investment (FDI), designed to secure technology and outside capital. The law was abruptly withdrawn the next year, however, having attracted little investment.

There was a three-year hiatus, before the government set forth the Third Seven-Year Plan (1987–1993), which would turn out to be the last multiyear plan issued by the government as of 2003. (The death of President Kim Il Sung on 8 July 1994 marked the end of multiyear planning.) An annual growth of 10% was targeted under the Third Seven-Year Plan, part of which would be derived from missile production and export. Its stated targets were a 90% increase in industrial output, 40% in agricultural production, and 70% in national income. The DPRK government publishes no official economic data, but estimates by the SOK Bank of Korea, the most reliable source of information on the North Korean economy, suggest that actual performance fell far short of these targets, in some areas by as much as 50%, and that overall industrial output decreased. The plan period spanned the breakup and economic liberalization of the Soviet bloc in 1991. President Kim Il Sung made a gesture at keeping up with the trends, decreeing the establishment of the Rajin-Sonborg Free Economic and Trade Zone (FETZ). However, the lack of

infrastructure and low investor confidence in the regime made the FETZ ineffective in attracting investments.

In late 1993 statements released by the Korean Workers' Party Central Committee for the first time admitted to the overall failure in achieving the goals of the economic plan. Another three-year period of adjustment was announced during which, again, agricultural production, light industry, and infrastructure projects were to be prioritized.

A serious problem the DPRK had in meeting its public goals, however, was that the international trade it had actually been fostering was clandestine. From the mid-1980s North Korea had become a prime source of missiles, missile technology, and nuclear technology for countries of the Middle East and Pakistan. The most fully developed relationships were with Iran's missile program and Pakistan's missile and nuclear programs. The weapons trade was estimated to have been worth roughly \$500 million a year, a figure equal to between 30% and 100% of estimated exports.

When Kim Il Sung died in July 1994, this was not one of the aspects of the economy that was radically affected since his son and successor, Kim Jong Il, had been in charge of the military.

As of 1994, total development assistance outside the Soviet bloc amounted to \$6 million. Famine struck the country in 1995 and 1996, and output contracted from 1995 to 1998 an estimated 46.8% (from \$23.5 billion GDP to \$12.5 billion GDP). No economic plan was issued by the government in the 1990s, a decade that was dominated from 1994 by an international effort to stop the regime's apparent nuclear ambitions with positive economic incentives.

The so-called Agreed Framework of October 1994 embodied the offer to replace the DPRK's heavy-water nuclear facilities (suitable for producing weapons-grade fuel) with light-water reactors (LWRs, not as suitable), with construction and financing arranged by the United States. An annual supply of 500,000 metric tons of heavy oil would be donated by a consortium of 17 countries. In exchange the DPRK committed to freeze and eventually dismantle its heavy-water facilities. The Korea Peninsula Energy Development Corporation (KEDO) was created to administer the agreement. Besides maintaining the freeze, the DPRK was also dissuaded in 1999 from test-firing its most advanced missile, the Taepodong-2, reported to have a range of over 2,400 km (1,500 mi).

The Agreed Framework began to unravel in early 2002, after US president George W. Bush, in his State of the Union address, branded North Korea as part of an "axis of evil." In July 2002, the DPRK introduced a number of market-based economic reforms. Three special economic zones were officially established in 2002, including a special autonomous region (SAR) in Sinuiji to attract Chinese investment, and zones at Mount Kumgang and near Kaesong to attract South Korean investment. The government also announced it would be presenting a formal economic plan in 2003. These gestures were overwhelmed by increased tensions following the October 2002 announcement from the US State Department that the DPRK regime had admitted it was pursuing a secret nuclear weapons program. Oil shipments through KEDO were stopped after November 2002, and by the end of December North Korea had expelled all IAEA inspectors and removed their monitoring devices. In February, the IAEA referred North Korea's nuclear program to the US Security Council. In April 2003, Kim Jong Il asked for a non-aggression pact with the United States, arguing that the US was planning to overthrow his regime. No economic plan had been issued.

#### 40 SOCIAL DEVELOPMENT

All men and women of working age are required to work, and all economic activity is run by the state. The government provides any medical, pension, or other welfare program to the workers.

The country relies heavily on international aid for basic subsistence.

The 1992 constitution guarantees equal rights for women. The state provides nurseries and day-care centers, and large families are encouraged. Like men, women are obligated by law to work, although few occupy high official positions. Women with large families are entitled to shorter work hours. Female workers are legally guaranteed five weeks of maternity leave. A UNICEF official reported that some 800,000 north Korean children were suffering from malnutrition and about 80,000 were in danger of dying from hunger and disease.

The government rejects international human rights standards, and human rights organizations are not permitted to operate. Dissent is not tolerated, and capital punishment is meted out for a wide variety of offenses, including attempted defection.

The government classifies all citizens into three groups: core, wavering and hostile. These security ratings reflect the perceived degree of loyalty exhibited by citizens. These ratings may be taken into account in the allocation of housing, employment, medical and other benefits. All citizens are subjected to extensive indoctrination. Listening to foreign broadcasts or possession of banned reading materials are punishable by death. Travel within the country is also strictly controlled. Travel passes must be requested for intervillage travel.

#### 41 HEALTH

The Ministry of Public Health is responsible for all national health services, including disease prevention and sanitation. All of the population had access to health care in 1993. As of 1999, estimated immunization rates for children up to one year old were as follows: diphtheria, pertussis, and tetanus, 37%, and measles, 34%. Polio has been nearly eradicated; in 1995 there were only seven cases. In 1999, there were three doctors per 1,000 people. In 1990-94, there were 13.5 hospital beds per 1,000 people. Western medicine is used alongside traditional Eastern medicine (*tonguihak*). In 1997, there were 176 cases of tuberculosis per 100,000 people. Cancer is now the leading cause of death, followed by heart disease and hypertension.

The total fertility rate has decreased from 5.8 in 1960 to 2.1 children per woman in her childbearing years, as of 2000. Average life expectancy in 1999 was 70.1 years for both men and women. The infant mortality rate was 25.5 per 1,000 in 1999 and the general mortality rate was 6.9 per 1,000 people. In 1999 the HIV/AIDS prevalence rate was less than 0.01 per 100 adults.

#### 42 HOUSING

A serious housing shortage was produced by the government's early stress on industrial rather than residential construction. The housing deficit was aggravated by the Korean War, which demolished about one-third of the country's housing. Since then, residential housing has received serious attention. About 886,000 new units were completed under the 1971-76 economic plan. Construction levels of 200,000-300,000 units a year were targeted for 1978-84, and 150,000-200,000 units a year were projected for 1987-93. Available figures for 1980-88 show a total housing stock of 4,566,000 with 4.5 people per dwelling.

The government reported that the catastrophic floods in August 1995 caused 500,000 residents to become homeless.

#### 43 EDUCATION

Both primary and secondary education are free and compulsory for 10 years, beginning at age five. Children ages one-five are cared for in nursery schools, followed by one year of kindergarten, four years of primary school, and six years of secondary school. The adult literacy rate was reported to be 99% in 1991.

Massive flooding in 1994 damaged and destroyed over 2,000 primary and secondary schools. According to UNESCO's EFA

2000 Assessment Report North Korea has 14,167 two-year kindergartens (with 748,416 pupils), 4,886 four-year primary schools (with 1,609,865 pupils), 4,772 six-year senior middle schools (with 2,181,524 pupils), and over 300 colleges and universities. In the 1990s, the school curriculum was balanced between academic and political subject matter. Subjects such as the Korean language, mathematics, and physical education accounted for most of the instructional time in the classroom; however, more than 8% of instructional time was spent on the "Great Kim Il Sung" and "Communist Morality."

Kim Il Sung University (founded in 1946) in P'yongyang is the only university, with about 16,000 full-time and part-time students and about 3,000 faculty, including teachers and research staff, as of the early 1990s. Admission to the university is by intensely competitive examination. Other institutions of higher learning include the Kimch'aek Polytechnic Institute, P'yongyang Agricultural College, and P'yongyang Medical School. In 1987 there were 220,000 students attending two- or three-year higher specialized schools and 301,000 students attending four- to six-year colleges and university courses. A system of adult schools, correspondence courses, and workplace schools makes higher education widely available.

#### 44 LIBRARIES AND MUSEUMS

The DPRK has more than 200 public libraries, the largest being the Grand People's Study House in P'yongyang, with 20 million volumes. In addition, there are research libraries at the academies of sciences and social sciences and at Kim Il Sung University.

Museums include the Korean Central Historical Museum, the Memorial Museum of the War of Liberation, the Korean Art Gallery, the Ethnographic Museum, and the Korean Revolutionary Museum, all in P'yongyang. There is a large museum at Mangyongdae, Kim Il Sung's birthplace, near the capital.

#### 45 MEDIA

Postal, telephone, and telegraph services are operated by the government. Telephones are believed to be used primarily for government business. In 1997 there were 1.1 million telephone lines in use.

The central broadcasting station in P'yongyang has a 1,500-kW transmitter. Broadcasts reach to every corner of the country through a system of more than one million loudspeakers, as well as through private radios. In addition, news is broadcast to other countries in English, Russian, French, and Spanish. There are two radio networks (Korean Central Radio and Radio P'yongyang) and two television networks (Korean Central TV and Mansudae TV). In total there were 16 AM and 14 FM radio stations, and 38 television stations in 1999. In 2000 there were 154 radios and 54 television sets for every 1,000 people. Internet access is only available to government officials.

All newspapers and periodicals in the DPRK are published by government, party, or front organizations; each edition is subjected to prepublication review and censorship. As of 2002, there were four daily newspapers in publication. The leading national newspapers and their publishers are: *Rodong Sinmun* (Central Committee of the Korean Workers' Party, circulation 1,500,000); *Minju Choson* (Presidium of the Supreme People's Assembly and the cabinet, circulation 200,000); *Joson Immingun* (*Korean People's Army Daily*); and *Rodong Chongnyon* (*Kim Il Sung Socialist Youth League*). Each province has a newspaper, and other mass organizations have their own publications. A state news service, the Korean Central News Agency, is the sole organ for the gathering and dissemination of news.

Though there are articles of the constitution that provide for freedom of speech and the press, in practice the government prohibits the exercise of these rights, controlling all information.

The receiving of foreign broadcasts is illegal, as is any criticism of the government in any media.

#### 46 ORGANIZATIONS

Mass organizations established for specialized political, economic, or cultural purposes include the powerful Democratic Front for the Reunification of the Fatherland, commonly known as the Fatherland Front. Among its constituent members are the Kim Il Sung Socialist Youth League (formerly known as the Socialist Working Youth League), under the direct guidance of the Korean Workers' Party Central People's Committee; the Young Pioneer Corps, open to children aged 9–15; and the Korean Democratic Women's League. Also important are the Korean Red Cross Society and the Korean Agricultural Workers' Union.

#### 47 TOURISM, TRAVEL, AND RECREATION

Most sightseeing takes place in the capital city of P'yongyang. Travel outside P'yongyang is closed to individual tourists but available to groups. Nampe, the port city for P'yongyang, has a beach resort area. The two most outstanding tourist sites outside the capital are the Kumgang (Diamond) Mountains in the southwest and Packdu Mountain on the Chinese border. Wrestling, tug-of-war, chess (with pieces different from the European form), and kite fighting are traditional sports. All visitors need visas secured in advance from DPRK diplomatic representatives. Increasingly anxious to obtain foreign exchange, the government has invited touring delegations from numerous nations, especially developing nations. All tourism from the United States, Israel, the ROK, and South Africa, is banned without invitation.

According to the UN, the daily cost of travel in DPRK in 1999 was \$179 in P'yongyang and \$104 elsewhere.

#### 48 FAMOUS KOREANS

Among the many historical figures of united Korea are Ulchi Mundok, a Koguryo general of the early 7th century AD; Kim Yosin (595–673), a warrior and folk hero in Silla's struggle to unify the peninsula; Wang Kon (877–943), the founder and first ruler of the Koryo Dynasty; Yun Kwan (d.1111), a Koryo general who repulsed Chinese invaders; Kim Pu-sik (1075–1151), a scholar-official who wrote the great *History of the Three Kingdoms*; Yi Song-gye (1335–1408), a general and founder of the Yi (or Li) Dynasty; King Sejong (1397–1450), who called for the invention of Han'gul and was Korea's greatest monarch; Yi Hwang (1501–70) and Yi I (1536–84), Neo-Confucianist philosophers and officials; Yi Sun-sin (1545–98), an admiral who invented the "turtleboat," the first ironclad ship, and defeated the Japanese in every naval engagement of the Hideyoshi invasions, dying in the climactic battle; Chong Yag-yong (1762–1836), a pragmatic scholar-official and prolific writer; and Yi Ha-ung (1820–98), known as the Taewon'gun (Prince Regent), the regent for his son, Kojong, and the central political figure of the late 19th century.

The preeminent political figure of the DPRK is Kim Il Sung (1912–94), the leader of the nation from 1948 until his death. Other influential figures have included Kim Il (1910–84), a prominent officeholder since 1954; Kim Jong Il (b. 1941), the son of Kim Il Sung, who succeeded him; Nam Il (1914–76), a chief of staff who became well known as an armistice negotiator at P'anmunjom (1951–53), and Marshal O Jin U (1918–95), head of the army from 1976 until 1993.

#### 49 DEPENDENCIES

The DPRK has no territories or colonies.

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# KOREA, REPUBLIC OF (ROK)

Republic of Korea  
*Taehan Min-guk*

**CAPITAL:** Seoul

**FLAG:** The flag, called the T'aegukki, shows, on a white field, a central circle divided into two parts, red on top and deep blue below, in the shape of Chinese yin and yang symbols. Broken and unbroken black bars in each of the four corners are variously arranged in sets of three, representing divination diagrams.

**ANTHEM:** *Aegukka (The Song of Patriotism)*, officially adopted on 15 August 1948.

**MONETARY UNIT:** The won (₩) is the national currency. There are notes of 500, 1,000, 5,000, and 10,000 won. ₩1 = \$0.00083 (or \$1 = ₩1,206) as of May 2003.

**WEIGHTS AND MEASURES:** Both the metric system and ancient Korean units of measurement are used.

**HOLIDAYS:** New Year's Days, 1–3 January; Independence Movement Day, 1 March; Labor Day, 10 March; Arbor Day, 5 April; Children's Day, 5 May; Memorial Day, 6 June; Constitution Day, 17 July; Liberation Day, 15 August; Armed Forces Day, 1 October; National Foundation Day, 3 October; Han'gul (Korean Alphabet) Day, 9 October; Christmas, 25 December.

**TIME:** 9 PM = noon GMT.

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

Occupying the southern 45% of the Korean Peninsula in East Asia, the Republic of Korea (ROK), also known as South Korea, has an area of 98,480 sq km (38,023 sq mi), extending 642 km (399 mi) NNE–SSW and 436 km (271 mi) ESE–WNW. Comparatively, the area occupied by South Korea is slightly larger than the state of Indiana. Bounded on the N by the Democratic People's Republic of Korea (DPRK), on the E by the Sea of Japan (known in Korea as the East Sea), on the S by the Korea Strait, and on the W by the Yellow Sea, the ROK has a total land boundary length of 238 km (148 mi) and a coastline of 2,413 km (1,508 mi). A demilitarized zone (DMZ), 4,000 m (13,100 ft) wide, covering 1,262 sq km (487 sq mi) and located north and south of the 38th parallel, separates the ROK from the DPRK, which comprises the northern part of the Korean Peninsula.

Over 3,000 islands, most of them off the southern and western coasts and belonging to the ROK, add another 8,600 km (5,350 mi) of coastline.

The ROK's capital city, Seoul, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

Elevations in the southern part of the Korean Peninsula are generally lower than those in the north. Only about 30% of the ROK consists of lowlands and plains. The principal lowlands, all bordering the Yellow Sea along the west coast, include the Han River Plain, near Seoul; the Pyongtaek and Honam plains, south of the capital; and the Yongsan Plain in the southwest. Mt. Halla (1,950 m/6,398 ft), on volcanic Cheju Island, is the nation's highest point, while Mt. Chiri, or Chii (1,915 m/6,283 ft), is the highest point on the mainland.

Principal rivers of the ROK include the Han (514 km/319 mi), with Seoul near its mouth; the Kum (401 km/249 mi) and Yongsan (116 km/72 mi), which water the fertile plains areas of the southwest; and the Somjin (212 km/132 mi), in the south. The longest river in the ROK is the Naktong (521 km/324 mi), which

waters the southeast. Yellow Sea tides on the west coast rise to over 9 m (30 ft) in some places, while Japan Sea tides on the east coast rise only about 1 m (3 ft).

## <sup>3</sup>CLIMATE

The average January temperature ranges from  $-5^{\circ}\text{C}$  ( $23^{\circ}\text{F}$ ) at Seoul to  $-2^{\circ}\text{C}$  ( $28^{\circ}\text{F}$ ) at Pusan and  $4^{\circ}\text{C}$  ( $39^{\circ}\text{F}$ ) on Cheju Island. In the hottest part of the summer, however, the regional variation in temperature is not nearly so marked, with average temperatures ranging from  $25^{\circ}\text{C}$  to  $27^{\circ}\text{C}$  ( $77$ – $81^{\circ}\text{F}$ ) in most lowland areas. Average rainfall is 100 to 150 cm (40 and 50 in). Nearly all the rainfall occurs in the April–September period, especially during the rainy season, late June to early August. From one to three mild typhoons normally strike the south in the early fall, with a severe one occurring every two or three years. Days free of frost number about 240 in the southern regions.

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

The Korean Peninsula is rich in varieties of plant life typical of temperate regions. More than 3,000 species, some 500 of them unique to Korea, have been noted by botanists. Warm temperate vegetation, including camellias and other broad-leaved evergreens, predominate in the south and on Cheju Island. Zoologists have identified more than 130 freshwater fishes, 112 breeding birds, 49 mammals, and 14 reptiles and amphibians on the peninsula. Bear, wild boar, deer, and lynx still are found in the highlands, but the shrinking of the forested area has reduced the animal population in recent years. Migratory water fowl, cranes, herons, and other birds are visible on the plains. Noxious insects and household pests infest the warmer regions, and aquatic life is generally infected with parasites.

## <sup>5</sup>ENVIRONMENT

Efforts to control the detrimental effects of rapid industrialization, urbanization, and population growth focus on the Office of Environment, established in 1980 to control air, water, and land pollution and manage solid wastes. The Environmental Preservation Law, revised in 1979, covers air,

water, and noise pollution, soil preservation, and disposal of solid wastes.

The nation has 64.9 cu km of renewable water resources with 63% used for agriculture and 11% used for industrial purposes. The purity of the nation's water is threatened by agricultural chemicals. In 1990, the nation dumped 10 million tons of sewage and 7 million tons of industrial chemicals into its water sources.

Air pollution, associated mainly with the use of coal briquettes for home heating and the increase in automobile traffic, is also severe, with smog a common problem in Seoul. In the mid-1990s, South Korea had among the world's highest level of industrial carbon dioxide emissions, which totaled 289.8 million metric tons per year, a per capita level of 6.56 metric tons per year. In 1996, the total rose to 408 million metric tons.

The Naktong River delta, a marshland where thousands of birds spend the winter, is threatened by environmental pollution and by plans to dam the mouth of the river. The beginning of construction of the Kumgangsan hydroelectric dam by the DPRK near the DMZ in 1986 was protested by the ROK on the grounds that the central Korean Peninsula could be flooded. In response, the ROK began construction of its own Peace Dam near the DMZ in 1987.

Although 28 species of birds and 8 species of mammals—chipmunk, wild boar, squirrel, raccoon dog, badger, hare, river deer, and roe deer—are still classified as game species, hunting was banned by the government from August 1972 through December 1981, except in such game preserves as that of Cheju Island. In 2001, 6 of Korea's mammal species and 19 bird species were endangered, as were 52 plant species. Endangered species in the ROK include the Amur leopard, Oriental white stork, Japanese crested ibis, and Tristram's woodpecker. The Japanese sea lion has become extinct.

## 6 POPULATION

The population of South Korea in 2003 was estimated by the United Nations at 47,700,000, which placed it as number 25 in population among the 193 nations of the world. In that year approximately 7% of the population was over 65 years of age, with another 22% 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 0.57%, with the projected population for the year 2015 at 49,672,000. The population density in 2002 was 487 per sq km (1,262 per sq mi).

It was estimated by the Population Reference Bureau that 82% of the population lived in urban areas in 2001. The capital city, Seoul, had a population of 9,935,000 in that year. Other large urban areas were Pusan, 4,239,000; Taegu, 2,559,000; Inch'on, 2,837,000; Kwangju, 1,665,000; Taejon, 1,431,000; Pun'chon, 1,264,000; Suwon, 1,268,000; and Ulsan, 967,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.4%.

## 7 MIGRATION

During the Japanese occupation (1910–45), some three million Koreans emigrated to Manchuria and other parts of China, 700,000 to Siberia, approximately three million to Japan, and about 7,000 to the US (mostly to Hawaii). The great majority of those who went to Japan were from the populous southern provinces, and large numbers (1.5–2 million) of them returned home following the end of hostilities in 1945. In addition, from 1945 through 1949, at least 1.2 million Koreans crossed the 38th parallel into the ROK, refugees from Communism or from the Korean War. Under the Emigration Law of 1962, the ROK government encouraged emigration to South America (especially Brazil), the Federal Republic of Germany (FRG), the Middle East, and elsewhere. Most of the emigrants are workers who remit earnings back home. A total of 409,922 Koreans emigrated

during the 1962–80 period; emigration peaked at 48,270 in 1976 but had declined to 27,163 in 1990. In addition, Koreans have emigrated permanently to the US in large numbers since 1971; the population in the US of Korean origin was 798,849 as of 1990 (72.7% foreign-born). In all, more than two million South Koreans were living abroad in 1988. Migration within South Korea, mainly from the rural areas to the cities, remains substantial, despite government efforts to improve village living conditions.

As of March 1997, the 1,400 boat people that were granted temporary refugee status were resettled to third countries. In 1999, the net migration rate was -0.3 per 1,000 population.

## 8 ETHNIC GROUPS

The Koreans are believed to be descended primarily from Tungusic peoples of the Mongoloid race, who originated in the cold northern regions of Central Asia. There is scant evidence of non-Mongoloid admixture. There are about 20,000 Chinese; however, the ROK has no sizable ethnic minority.

## 9 LANGUAGES

The Korean language is usually held to be a member of the Altaic family; there are only slight differences between the various dialects. Korean is written in a largely phonetic alphabet called *Han'gul*, created in 1443. The Korean alphabet originally consisted of 14 consonants and 10 vowels; since then, 5 consonants and 11 vowels have been added. *Han'gul* letters are combined into syllables by clustering, in imitation of Chinese characters. ROK governments have launched several “language beautification” drives designed to purge Korean of borrowings from Japanese and other languages, but more than half of the vocabulary consists of words derived from Chinese.

English is widely taught in junior high and high school.

## 10 RELIGIONS

Most South Koreans are quite eclectic in their religious beliefs, the majority subscribing to varying mixtures of Taoism, Confucianism, Buddhism, Christianity, Ch'ondogyo (Religion of the Heavenly Way, an indigenous sect originating in 1860), and local animism. Shamanism, especially its aspect of exorcism of evil spirits, survives in some rural areas of the ROK. Geomancy is also used in matters such as the selection of auspicious building and tomb sites.

In 1995 (the last government survey), 49% of the population practiced Christianity (including 8,760,336 Protestants and 2,950,730 Roman Catholics); 47% Buddhism; 3% Confucianism; and 1% folk religion (shamanism), Ch'ondogyo (Religion of the Heavenly Way), and other. Over 21 million people claimed that they did not practice any religion.

Within the religious communities, there are about 38 different orders of Buddhism and 83 different Protestant denominations, including Methodists, Lutherans, Baptists, Presbyterians, Anglicans, and the Korean Gospel Church Assembly. The Catholic Church has 15 dioceses. Other religions with significant popular followings included Taejongyo, based on the worship of a trinity of ancient deities, and Soka Gakkai, a Buddhist sect of Japanese origin. There were also practicing Muslims, members of the Unification Church, Mormons, and Jehovah's Witnesses.

The constitution provides for freedom of religion, and the government reportedly respects this right in practice. There is no state religion, and the government does not subsidize or favor a particular religion.

## 11 TRANSPORTATION

The bulk of ROK railroads, totaling 3,124 km (1,941 mi) of track in 2002, are government owned. The Seoul subway system opened in 1991. Construction of Pusan's first subway line was completed in 1985.



LOCATION: 33°7' to 38°38' N; 124°36' to 130°56' E. BOUNDARY LENGTHS: DPRK, 240 kilometers (149 miles); total coastline, 1,318 kilometers (819 miles). TERRITORIAL SEA LIMIT: 12 miles.

The ROK road system carries 90% of the country's transportation. In 2002, the ROK had 87,534 km (54,394 mi) of roadway, of which 65,388 km (40,632 mi) were paved, including 1,996 km (1,069 mi) of expressways. There were 8,084,005 passenger automobiles, and 3,975,856 commercial vehicles in 2000. Bus transportation networks of varying quality serve most of the rural towns.

Maritime shipping expanded rapidly during the 1970s. By 2002, the ROK had a merchant fleet of 501 vessels, accounting for a total of 5,212,089 GRT (9,172,403 DWT). Pusan is the chief port; other major ports include Incheon (the port for Seoul), Kunsan, and Mokp'o.

There were 102 airports in 2001, 69 of which had paved runways. Major airports include Cheju International at Cheju, Kimhae International at Pusan, and Gimpo International at Seoul. Civil aviation in the ROK in 2001 amounted to 6,957 million freight ton-km (4,323 million freight ton-mi) of service and 32,638,200 passengers were carried on scheduled domestic and international flights. Korean Air Lines (KAL), privately owned since 1969, grew rapidly during the 1970s and now ranks as a major world carrier. On the morning of 1 September 1983, a KAL jetliner en route from New York to Seoul via Anchorage, Alaska, strayed over airspace of the former USSR and was shot down by Soviet interceptors, reportedly because they thought it was a military aircraft engaged in espionage; all 269 persons on board were killed, and worldwide protest followed. In November 1983, 115 people were killed when a bomb was apparently detonated aboard a KAL jet en route to Seoul.

## 12 HISTORY

[For Korean history before 1948, see Korea, Democratic People's Republic of.]

The Republic of Korea, headed by President Syngman Rhee (Rhee Syngman), was proclaimed on 15 August 1948 in the southern portion of the Korean Peninsula, which had been under US military administration since 8 September 1945. Like the Democratic People's Republic of Korea (DPRK), established in the north on 9 September 1948 with Soviet backing, the ROK claimed to be the legitimate government of all Korea. The ROK was recognized as the legitimate government by the UN General Assembly.

At dawn on 25 June 1950, following a year and a half of sporadic fighting, the well-equipped People's Army of the DPRK struck south across the 38th parallel. Proclaiming that the war was for national liberation and unification of the peninsula, the DPRK forces advanced rapidly; Seoul fell within three days, and the destruction of the ROK seemed imminent. At US urging, the UN Security Council (with the Soviet delegate absent) branded the DPRK an aggressor and called for the withdrawal of the attacking forces. On 27 June, US president Harry S. Truman ordered US air and naval units into combat, and three days later, US ground forces were sent into battle. The United Kingdom took similar action, and a multinational UN Command was created to join with and lead the ROK in its struggle against the invasion. Meanwhile, DPRK troops had pushed into the southeast corner of the peninsula. At that juncture, however, UN lines held firm, and an amphibious landing at Incheon (15 September 1950) in the ROK under General Douglas MacArthur brought about the complete disintegration of the DPRK army.

MacArthur, commanding the UN forces, made a fateful decision to drive northward. As the UN forces approached the Yalu River, however, China warned that it would not tolerate a unification of the peninsula under US/UN auspices. After several weeks of threats and feints, "volunteers" from the Chinese People's Liberation Army entered the fighting en masse, forcing MacArthur into a costly, pell-mell retreat back down the peninsula. Seoul was lost again (4 January 1951) and then regained before the battle line became stabilized very nearly along the 38th parallel. There it remained for two weary years, with bitter fighting but little change, while a cease-fire agreement was negotiated.

On 27 July 1953, an armistice agreement finally was signed at P'anmunjom in the DPRK. The Korean War was ended, but it had brought incalculable destruction and human suffering to all of Korea (some 1,300,000 military casualties, including 415,000 combat deaths, for the ROK alone), and it left the peninsula still more implacably divided. A military demarcation line, which neither side regarded as a permanent border, was established, surrounded by the DMZ. An international conference envisioned in the armistice agreement was not held until mid-1954. This

conference and subsequent efforts failed to reach an agreement on unification of the North and South, and the armistice agreement, supervised by a token UN Command in Seoul and by the Military Armistice Commission and the Neutral Nations Supervisory Commission, both in P'anmunjom, remains in effect.

In 1954, the United States and ROK signed a mutual defense treaty, under which US troops remained in the country. Financial assistance throughout the 1950s was provided by the US, averaging \$270 million annually between 1953 and 1958, and by other nations under UN auspices. Syngman Rhee ran the government until 1960, when his authoritarian rule provoked the "April Revolution," the culmination of a series of increasingly violent student demonstrations that finally brought about his ouster. The Second Korean Republic, which followed Rhee, adopted a parliamentary system to replace the previous presidential system. The new government, however, was short-lived. Premier Chang Myon and his supporters were ousted after only 10 months by a military coup in May 1961, headed by Major-General Park Chung-hee. The military junta dissolved the National Assembly, placed the nation under martial law, established the Korean Central Intelligence Agency (KCIA) as a means of detecting and suppressing potential enemies, and ruled by decree until late 1963 through the Supreme Council for National Reconstruction. General Park created a well-organized political party—the Democratic-Republican Party (DRP)—designed to serve as a vehicle for the transition from military to civilian rule, and in October 1963, under a new constitution, he easily won election as president of the Third Republic.

During the summer of 1965, riots erupted all over the ROK in protest against the ROK-Japan Normalization Treaty, which established diplomatic relations and replaced Korean war-reparation claims with Japanese promises to extend economic aid. The riots were met with harsh countermeasures, including another period of martial law and widespread arrests of demonstrators. Further demonstrations erupted in 1966, when the ROK's decision to send 45,000 combat troops to Vietnam became known. Park was elected to a second term in May 1967, defeating his chief opponent, Yun Po-sun, and the DRP won a large majority in the National Assembly. In 1969, Park pushed through the National Assembly a constitutional amendment permitting him to run for a third term. He defeated Kim Dae Jung, leader of the opposition New Democratic Party (NDP), in the elections of April 1971, but Kim's NDP made significant gains in the National Assembly elections that May.

Student demonstrations against the government in the fall of 1971 prompted Park to declare a state of national emergency on 6 December. Three weeks later, in a predawn session held without the knowledge of the opposition, the Assembly granted Park extraordinary governmental powers. These failed to quell mounting opposition and unrest, and in October 1972 martial law was declared. A new constitution, promulgated at the end of the month and ratified by national referendum in November 1972, vastly increased the powers of the presidency in economic as well as political affairs. Under this new document, which inaugurated the Fourth Republic, Park was elected for a six-year term that December, with a decisive legislative majority for his DRP. Soon the economy began to expand at a rapid rate. But Park's regime became increasingly repressive. Typical of its heavy-handed rule was the abduction by KCIA agents of Kim Dae Jung from a Japanese hotel room back to Seoul, an incident that provoked considerable friction between Japanese and Korean officials. On 15 August 1974, a Korean gunman carrying a Japanese passport and sympathetic to the DPRK attempted to assassinate the president but killed Park's wife instead. Park responded by drafting a series of emergency measures; the harshest of these, Emergency Measure No. 9, issued in May 1975, provided for the arrest of anyone criticizing the constitution and banned all political activities by students.

Park was reelected for another six-year term in July 1978, but the NDP, now led by Kim Young Sam, made major gains in the National Assembly. In October 1979, Kim was expelled from the legislature after calling for governmental reform. Riots protesting Kim's ouster were reported in several major cities. On 26 October 1979, in what may have been an attempted coup, Park was assassinated by KCIA Director Kim Jae-gyu, who was later executed. Martial law was again imposed, and a period of relative calm followed as some of the more restrictive emergency decrees were lifted by Park's constitutional successor, the prime minister, Choi Kyu-hah, who promised a new constitution and presidential elections.

In December 1979, Maj. Gen. Chun Doo Hwan led a coup in which he and his military colleagues removed the army chief of staff and took effective control of the government. Demonstrations, led by university students, spread through the spring of 1980 and, by mid-May, the government once more declared martial law (in effect until January 1981), banned demonstrations, and arrested political leaders. In the city of Kwangju, more than 200 civilians were killed in what became known as the Kwangju massacre. Choi Kyu-hah was pressured to resign and Chun Doo Hwan, now retired from the military, was named president in September 1980. Chun Doo Hwan came to power under a new constitution inaugurating the Fifth Republic. A total of 567 political leaders, including Kim Dae Jung and Kim Young Sam, were banned from political activity. Kim Dae Jung, arrested several times after his 1973 kidnapping, was originally sentenced to death but allowed to go to the United States in 1982. All existing political parties were dissolved, and all political activity banned until three months before the 1981 elections.

Twelve new parties (reduced to eight) were formed to enter the 1981 elections, in which Chun Doo Hwan was elected to a seven-year presidential term by a new electoral college and his Democratic Justice Party (DJP) secured a majority in the reconstituted National Assembly. Despite harsh controls, opposition to Chun continued. In 1982, 1,200 political prisoners were released, and in early 1983, the ban on political activity was lifted for 250 of the banned politicians. On 9 October 1983, Chun escaped an apparent assassination attempt in Rangoon, Burma, when an explosion took the lives of 17 in his entourage, including 4 ROK cabinet ministers. Chun subsequently blamed the DPRK for the bombing. In 1984, under increasing pressure for political reforms prior to the 1985 parliamentary elections, the government lifted its ban on all but 15 of the 567 politicians banned in 1980. In 1985, the ban was lifted on 14 of the remaining 15. Kim Dae Jung was allowed to return from exile in the United States in 1984 but rearrested. He remained banned from all political activity because of his conviction for sedition in 1980.

Opposition groups quickly formed the New Korea Democratic Party (NKDP) to challenge the DJP in the 1985 election; the new party became a strong minority voice in the National Assembly. The issue of constitutional reforms, particularly changes in the way in which presidents are elected and the way in which "bonus" seats in the legislature are distributed, became prominent, especially after Chun reaffirmed a commitment to step down in February 1988 and, in April 1986, dropped his long-standing opposition to any constitutional changes prior to that date. Demonstrations against Chun continued and became violent at Inch'on in May 1986 and at Konkuk University that fall. Opposition groups began collecting signatures on a petition demanding direct (instead of indirect) election of the president. In April 1987, as demonstrations became increasingly violent, Chun banned all further discussion of constitutional reform until after the 1988 Olympic Games in Seoul. The ban, which could have guaranteed the election of a handpicked DJP successor, set off violent antigovernment demonstrations throughout the nation. In June 1987, the DJP nominated its chairman, Roh Tae Woo, a

former general and a close friend of Chun, as its candidate for his successor. When Roh accepted opposition demands for political reforms, Chun announced in July that the upcoming election would be held by direct popular vote. On 8 July, 100,000 people demonstrated in Seoul in the largest protest since 1960 and, on the same day, the government restored political rights to 2,000 people, including the longtime opposition leader, Kim Dae Jung.

In the elections, held on 16 December 1987, Roh Tae Woo, as the DJP candidate, won a plurality of 37%, defeating the two major opposition candidates, Kim Young Sam and Kim Dae Jung, who had been unable to agree on a single opposition candidacy and split 55% of the total vote. Two minor candidates divided the remainder. A reported 89% of all eligible voters participated. The two leading opposition candidates charged massive fraud, and a series of demonstrations were held to protest the results. However, no evidence of extensive fraud was produced, and the demonstrations did not attract wide support. Roh Tae Woo was inaugurated as president in February 1988 when Chun Doo Hwan's term expired.

In the elections for the National Assembly, held on 26 April 1988, President Roh Tae Woo's party, the DJP, won only 34% of the vote. This gave the DJP 125 seats in the assembly, while Kim Dae Jung's Peace and Democracy Party (PDP) gained 70 seats, Kim Young Sam's Reunification Democratic Party (RDP) won 59 seats, 35 seats went to the new Democratic Republican Party (NDRP), and 10 to independent candidates. Thus, for the first time in 36 years, the government did not have a controlling vote in the National Assembly, which quickly challenged President Roh's choice for head of the Supreme Court and by year's end forced the president to work with the assembly to pass the budget.

In the fall of 1988, the National Assembly audited the government and held public hearings into former President Chun's abuses of power. In November, Chun apologized to the nation in a televised address, gave his personal wealth to the nation, and retired into a Buddhist temple. Following the revision of the constitution in 1987, South Koreans enjoyed greater freedoms of expression and assembly and freedom of the press and, in 1988, several hundred political dissidents were released from prison.

Unrest among students, workers, and farmers continued, however, and beginning in April 1989, the government repressed opposition. In October 1989, the government acknowledged making 1,315 political arrests so far that year. The National Assembly became less of a check on President Roh after two opposition parties (RDP, NDRP), including that of Kim Young Sam, merged with Roh's DJP, forming a new majority party, the Democratic Liberal Party (DLP) in January 1990. Kim Dae Jung was then left as the leader of the main opposition party (PDP).

There were continuing demonstrations into 1990 and 1991, calling for the resignation of President Roh and the withdrawal of United States troops. In May 1990, 50,000 demonstrators in Kwangju commemorated the tenth anniversary of the massacre, resulting in clashes with police which lasted several days. The United States agreed to withdraw its nuclear weapons from the ROK in November 1991. And, on the last day of the year, the ROK and the DPRK signed an agreement to ban nuclear weapons from the entire peninsula.

In the presidential election on 19 December 1992, Kim Young Sam, now leader of the majority DLP, won with 41.9% of the vote, while Kim Dae Jung (DP) took 33.8%. Inaugurated in February 1993, Kim Young Sam began a new era as the first president in 30 years who was a civilian, without a power base in the military. President Kim granted amnesty to 41,000 prisoners and instituted a series of purges of high-ranking military officials, including four generals who had roles in the 1979 coup. Among political and economic reforms was a broad anticorruption campaign, resulting in arrests, dismissals, or reprimands for

several thousands of government officials and business people. In March 1994, a former official of the National Security Planning Agency made public President Roh Tae Woo's authorization of a covert program to develop nuclear weapons at the Daeduk Science Town through 1991.

South and North Korea continue to have a rocky relationship. In April of 1996, North Korean troops on three successive days violated the 1954 armistice which had ended the Korean War by entering Panmunjom. The soldiers, who were apparently conducting training exercises, withdrew after a few hours on all three occasions. In September of the same year, a small North Korean submarine was grounded off the Eastern coast of South Korea and 26 crew members fled into the interior of South Korea. The ship appeared to be carrying a team of North Korean spies who intended to infiltrate into South Korea to carry out what remain unknown missions against South Korean targets. Twenty-four of the crewmen were killed, one escaped and one remains at large. In a surprise unusual move, the North Korean government apologized in February of 1997 for the incursion.

Meanwhile recent domestic events inside South Korea have been equally tumultuous. In August of 1996, former President Chun Doo Hwan and his successor, Roh Tae Woo were tried and found guilty of treason and mutiny for the 1980 coup that brought them to power, and the subsequent Kwangju massacre, in which troops killed at least 154 pro-democracy demonstrators. The court gave Chun a death sentence (extremely rare in Korea) and sentenced Roh to 22.5 years in prison. An appellate court later reduced Chun's sentence to life imprisonment and Roh's sentence to 17 years. When Kim Dae Jung was inaugurated as president in 1998, both leaders were released from prison under Kim's grant of amnesty.

On 11 April 1996, legislative elections took place amid allegation of corruption that reached to the inner circle of President Kim Young Sam and his New Korea Party. During the pre-election campaigning, Kim promised to launch an anti-corruption effort if his party gained power; in a major upset, the NKP captured 139 of the 299 seats, while the main opposition party (National Congress for New Politics—NCNP) or Kim Dae Jung won only 79 seats. Kim Dae Jung lost his own seat in the legislature. Several important New Korea Party officials and even Kim Young Sam's son, were implicated on charges of taking or giving millions of dollars in bribes to arrange loans to Hanbo Steel Industry Co., which eventually went bankrupt under \$6 billion of debt. Some of those officials were indicted in February of 1997 but Mr. Kim's son, Kim Hyun Chul, was cleared. However, in May of the same year Kim Hyun Chul was arrested on bribery and tax-evasion charges unrelated to the Hanbo scandal.

By 1997, many of the large *chaebols* (business conglomerates) reported serious problems with debt. A portion of Kia Group, a major manufacturer of automobiles, was nationalized to prevent bankruptcy. Increased domestic economic instability coupled with economic crisis sweeping through Asia, led to a severe decline in the value of the currency. The ensuing financial panic coincided with presidential elections on 18 December 1997, the month that negotiations with the International Monetary Fund (IMF) began. In the election Kim Dae Jung narrowly defeated the ruling party's candidate Lee Hoe Chang by 40.3% to 38.7%. A third candidate Yi In Che garnered 19.2% of the votes, effectively splitting the pro-government vote. Kim Dae Jung pledged to adhere to IMF conditionality and reform government-business relations in South Korea by increasing transparency. In 1998 and 1999, the government reduced the role of government intervention in the domestic economy despite numerous strikes by workers protesting layoffs.

By mid-2000, Kim Dae Jung managed to steer Korea's economy out of the worst of the crisis. The economy started to grow in 1999 and economic estimates suggested that economic

growth would top 10% for 2000. In April 2000, the legislative elections improved the position of Kim's party, renamed the New Millennium Party (NMP) to 115 seats. However, the Grand National Party (GNP), successor to the NKP obtained 133 seats and the United Liberal Democrats, allied to the GNP, won 17. Thus, Kim's objective to continue economic reform was imperiled.

In June 2000, Kim Dae Jung traveled to P'yongyang, the capital of the Democratic People's Republic of Korea (North Korea) for an historic meeting with his counterpart, Kim Jong Il. The two agreed to pursue further cooperation in the future. This summit meeting marked the high point of what became known as Kim Dae Jung's "sunshine policy" of rapprochement toward the North. He was awarded the Nobel Peace Prize in 2000 for his commitment to democracy and human rights in Asia.

Roh Moo Hyun was elected president in the December 2002 election, taking 49% of the vote; he was inaugurated in February 2003. While campaigning, Roh had stated he would continue with Kim Dae Jung's "sunshine policy" toward the North, but prior to his election, it was revealed that North Korea was secretly developing a program to enrich uranium for use in nuclear weapons. Relations between North Korea and the US were tense in 2002 and 2003, as the US maintained North Korea should not be allowed to develop nuclear weapons, and the North asserted it had the right to do so to provide for its defense and security. Roh took the position that North Korea's moves to develop nuclear weapons and export missiles could only be countered by dialogue. This put him at odds with some in the Bush Administration who held that the United States would not be "blackmailed" into negotiating with the North. In June 2003, the United States announced it would redeploy some of its 37,000 troops in South Korea to positions south of the DMZ, in an effort to create more agile and mobile forces.

South Korea's economy in 2003 was growing at 6.3%, a rate that was among the highest in the developed world.

### 13 GOVERNMENT

The Republic of Korea's (ROK) first constitution was adopted on 17 July 1948. Through repeated revisions, power remained concentrated in the hands of the president until the most recent revision, adopted by 93.1% of the vote in a popular referendum on 28 October 1987. Under the new constitution, which took effect in February 1988, the president is elected by direct popular vote, rather than indirectly as before, for a single term of five years. There are also a prime minister and two deputy prime ministers, who head the State Council (the cabinet). Roh Moo Hyun was elected president on 19 December 2002 for a five-year term beginning on 25 February 2003.

The ROK legislature is the unicameral National Assembly (Kuk Hoe). It has 273 seats; 227 are filled by direct election, while the remaining 46 are filled proportionally. During the first four decades of the ROK, the National Assembly had little authority. The 1987 constitution strengthened the National Assembly, giving it power to audit government activities and removing the president's power to dissolve the Assembly. Suffrage is universal at age 20.

In the elections of 2000, the Grand National Party won a narrow victory with 39% of the vote.

### 14 POLITICAL PARTIES

From 1948 to 1988, politics in the Republic of Korea were dominated by the executive arm of the government with military backing. Despite this, there were active opposition parties and, with the implementation of the revised 1987 constitution, political parties have had a greater governmental role. In the presidential election of December 1987, the governing Democratic Justice Party (DJP), with Roh Tae Woo as its candidate, won 37% of the vote; the Reunification Democratic

Party (RDP), with Kim Young Sam, won 28%; the Peace and Democracy Party (PDP), with Kim Dae Jung, won 27%; and the New Democratic-Republic Party (NDRP), with Kim Jong Pil, won 10%. In a crucial election for the National Assembly in April 1988, the DJP gained only 34% of the popular vote, allowing the opposition parties to control the assembly. This was the first time since 1952 that the government party did not have a majority in, and hence control of, the National Assembly.

In a surprise move in January 1990, the DJP merged with two of the opposition parties, the RDP and the NDRP, to form a new majority party, the Democratic Liberal Party (DLP). In July of that year, two opposition parties, the PDP and the Democratic Party (DP) merged, retaining the name DP. In September 1991, the DP agreed to merge with another opposition party, the New Democratic Party (NDP), then led by the veteran oppositionist, Kim Dae Jung, forming a new DP.

The National Assembly election on 24 March 1992 saw 38.5% of the vote going to the DLP; 29.2% to the DP; 17.3% to the Unification National Party, which later changed its name to the United People's Party (UPP); and 15% to other parties. The actual distribution of seats in the National Assembly shifts as members frequently switch among parties. In the presidential election on 18 December 1992, 41.5% of the vote went to Kim Young Sam of the DLP; 33.8% to Kim Dae Jung of the DP; 16.3% to Chung Ju Yung of the UPP; and 8% to candidates of various smaller parties.

Following the 1992 elections, Korea's largest political parties began a period of reorganization. The DLP transformed into the New Korea Party (NKP) while Kim Dae Jung formed a new opposition party, the National Congress for New Politics (NCNP). In the National Assembly election on 11 April 1996, the NKP won 139 seats; the NCNP, 79 seats; the ULD, 50 seats; and the DP, 15 seats. The remaining 16 seats were won by independents. The surprise of the election was the success of the ULD, a conservative party led by former premier Kim Jong Pil.

In the presidential election of 18 December 1997, Kim Dae Jung won 40.3% and Yi Hoe Chang of the Grand National Party (GNP) won 38.7%. In January 2000, Kim reorganized his cabinet; his party, the National Congress for New Politics, assumed a new name: New Millennium Party (NMP).

The 13 April 2000 election involved Kim Dae Jung's New Millennium Party, which captured 115 seats; the former governing party—Grand National Party (formerly the New Korea Party) obtained 133 seats; and a minor party, the United Democratic Liberal Party captured 17 seats. Two seats were held by the Democratic People's Party, one seat was held by the New Korea Party of Hope, and 5 seats went to independents.

### 15 LOCAL GOVERNMENT

The Republic of Korea (ROK) is divided into nine provinces (*do*), Cheju, North Cholla, South Cholla, North Ch'ungch'ong, South Ch'ungch'ong, Kangwan, Kyonggi, North Kyongsang, and South Kyongsang. There are seven provincial-level cities (*jikhalsi*) directly under the central government: Seoul, the capital; Inch'on; Kwangju; Pusan; Taegu; Taejon; and Ulsan. Provinces are divided into cities (*si*), counties (*kun* or *gun*), townships (*myon*), and villages (*i* or *ri*). Between 1961 and March 1990, there were no local elections.

### 16 JUDICIAL SYSTEM

The highest judicial court is the Supreme Court, under which are five intermediate appellate courts. Lower tribunals include district courts, of which there are 15, and a family and administrative court. There are 103 municipal courts in South Korea. Since 1988 constitutional challenges go to the Constitutional Court.

The president, with the consent of the National Assembly, appoints the chief justice, the other 13 justices of the Supreme

Court, and the Constitutional Court. The chief justice in consultation with the other justices of the court, appoints lower court justices.

The constitution provides for a presumption of innocence, protection from self-incrimination, the rights to a speedy trial, protection from double jeopardy and other procedural due process safeguards.

The constitution provides for an independent judiciary. There are no jury trials. The legal system combines some elements of European civil law systems, Anglo-American law, and classical Chinese philosophies.

## 17 ARMED FORCES

Of a total of 686,000 personnel on active duty, 560,000 were in the army, 63,000 in the navy and marines, and 63,000 in the air force. An additional 4.5 million were in the reserves. Paramilitary forces included 3.5 million in the Civilian Defense Corps. Equipment included over 2,000 main battle tanks, 20 submarines, and 538 combat aircraft. South Korea provided support for peacekeeping and UN missions in six regions. The US maintained a military presence of 37,140 personnel. Defense spending was \$12.8 billion in 2001 or 2.8% of GDP.

## 18 INTERNATIONAL COOPERATION

ROK is a member of the UN and participates in ESCAP and all the nonregional specialized agencies. The UN Commission on the Unification and Rehabilitation of Korea was dissolved in 1973, but the UN Command originating from the Korean War continues to supervise implementation of the 1953 armistice agreement.

The ROK pursues a vigorous international diplomacy, and in recent years has modified both its militant anti-Communist stance and its close alliance with the US. By 1986, the ROK was recognized by 122 nations, 67 of which also had diplomatic relations with the DPRK. The ROK participates in the African Development Bank, Asian Development Bank and G-77, is a permanent observer with the OAS, and is a signatory to the Law of the Sea and a member of the WTO.

## 19 ECONOMY

Under a centralized planning system initiated in 1962, the ROK was one of the fastest growing developing countries in the postwar period, shifting from an agrarian to an industrial economy to a high-tech "new economy" in the course of only a few decades. In 1996, the ROK was officially admitted to the 30-member Organization for Economic Cooperation and Development (OECD) of advanced industrialized countries. In 2001, industry contributed 44% of GDP compared to 16.2% in 1965, while agriculture, forestry and fishing accounted for 4%, down from 46.5%. Much of this industrialization was fueled by the government's stimulation of heavy industry, notably steel, construction, shipbuilding, and automobile manufacture, as well as its support of technological advances in communications and information technology (CIT). To finance industrial expansion the ROK borrowed heavily up until the mid-1980s. By the end of 1986 its foreign debt equaled about 52% of GNP, making the country one of the world's four most deeply indebted developing economies. Steady current account surpluses allowed the ROK to reduce this figure, but in 1998, in the wake of the Asian financial crisis, the external debt/GDP ratio again ballooned, reaching an average 46.9% in 1998. Financial and corporate structural reforms helped bring this ratio down to 28.4% (est.) in 2002, with a projected 25.8% in 2003.

The average annual rate of GDP growth declined from an average of 9.5% between 1965–80 and 9.7% 1980 to 1990 to 6.57% 1991 to 2000 as export growth slowed, labor costs rose, and the won steadily appreciated against the US dollar. However, Korea's economy started to grow once again at the phenomenal

rate that it saw in the 1970s and 1980s in the later 1990s. The economy grew by 9.1% in 1995 and 9.1% in 1996. However, after June 1997, when Hong Kong reverted to Chinese rule, South Korea became engulfed in the Asian financial crisis. GDP growth averaged only 5% in 1997, and then turned negative (-6.6%) in 1998, in the country's first economic contraction since the Korean war. Export value fell 25% in 1998 despite a 19.6% increase in volume, due to depreciating currencies. Before the end of 1997, a \$58 billion international support program had been arranged, anchored in a three year stand-by arrangement with the IMF running from 4 December 1997 to 3 December 2000, and a one-year arrangement under IMF's Supplemental Reserve Facility (SRF) with an additional \$14 billion line of credit. South Korea's economy made a strong recovery in 1999 and 2000, with GDP growth rates of 10.9% and 9.3%, while inflation, which had reached 4% in 1998, was held to 1.9% in 1999 and 2.8% in 2000. The recovery was sharply interrupted, however, by the collapse of the dot.com boom in early 2001 and the decline in international investment in the aftermath of the 11 September 2001 terrorist attacks on the United States. Real GDP growth dropped to 3.3% in 2001 and is projected to have achieved only between 5.5% and 5.8% in 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 South Korea's gross domestic product (GDP) was estimated at \$931 billion. The per capita GDP was estimated at \$19,400. The annual growth rate of GDP was estimated at 5.8%. The average inflation rate in 2002 was 2.8%. 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 4% of GDP, industry 42%, and services 54%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$63 million or about \$1 per capita. Worker remittances in 2001 totaled \$49.20 million. Foreign aid receipts amounted to about \$2 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$6,907. 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 18% of household consumption was spent on food, 7% on fuel, 5% on health care, and 14% on education. The richest 10% of the population accounted for approximately 24.3% of household consumption and the poorest 10% approximately 2.9%. It was estimated that in 2001 about 4% of the population had incomes below the poverty line.

## 21 LABOR

The labor force numbered 22 million in 2002. In that year, 10% were engaged in agriculture, 22% in industry, and 69% in the service sector. The unemployment rate in 2002 averaged 3%.

Before 1987, the labor movement was heavily controlled by the government, but since 1991, democratic reform has brought some changes. With the exception of public sector employees, workers enjoy the right to join unions even with as few as two members. All unions must register with the labor ministry. In 2002, about 12% of the workforce belonged to 5,698 registered local unions. Unions often exercise the right to strike, and collective bargaining is prevalent.

Children under the age of 15 are generally prohibited from working, and those under 18 must obtain written approval from their parents. The maximum regular workweek is set at 44 hours, with overtime pay mandatory for extended hours. In 2002, the minimum wage was \$1.63 per hour. Health and safety standards

are regulated by the government although it is not stringently enforced due to lack of inspectors.

## 22 AGRICULTURE

Some 20% of the ROK's land area is arable, with about 70% of it sown in grain, rice being the chief crop. In 1965, agriculture (including forestry and fishing) contributed nearly 50% to GNP, but by 2001 only accounted for 4.4%. Double-cropping is common in the southern provinces. Rice production in 2000/01 was 5,290,000 tons. Barley production in 1999 stood at 331,000 tons; potatoes, 562,000 tons; and soybeans, 145,000 tons. Despite increased yields due to mechanization, the use of hybrid seeds, and increased employment of fertilizers, the ROK runs a net deficit in food grains every year. In 2001, imports of cereals, mostly from the United States, amounted to \$1,510 million, consisting almost entirely of wheat and corn. Virtual self-sufficiency has been attained in rice production, but at a cost of nearly \$2 billion per year in direct producer subsidies. In 2001, the ROK's agricultural trade deficit was \$6.67 billion, fifth highest in the world.

Hemp, hops, and tobacco are the leading industrial crops. The ROK was the world's leading producer of chestnuts in 1999. The orchards in the Taegu area are renowned for their apples, the prime fruit crop; output in 1999 was 491,000 tons. Pears, peaches, persimmons, and melons also are grown in abundance. About two-thirds of vegetable production is made up of the *mu* (a large white radish) and Chinese cabbage, the main ingredients of the year-round staple kimchi, or "Korean pickle."

Until the Korean War, tenant farming was widespread in the ROK. The Land Reform Act of June 1949, interrupted by the war, was implemented in 1953; it limited arable land ownership to three ha (7.4 acres) per household, with all lands in excess of this limit to be purchased by the government for distribution among farmers who had little or no land. By the late 1980s, farms averaged 0.5–1 ha (1.2–2.5 acres). The New Village (Saemaul) Movement, initiated in 1972, plays a major role in raising productivity and modernizing villages and farming practices.

## 23 ANIMAL HUSBANDRY

The raising of livestock, traditionally a supplementary occupation among ROK farmers, expanded rapidly during the 1970s and 1980s. In 2001, 1.9 million head of cattle were raised; pigs totaled 8,719,000, and chickens, 102 million. Production in 2001 included (in thousands of tons): beef, 226; pork, 928; chicken, 433; eggs, 522; milk, 2,338; butter, 5.7. The silkworm industry has declined radically since the mid-1970s. Although the dairy industry has been protected by import restrictions, an incremental lifting of such trade constraints is underway, which will eventually include livestock imports.

## 24 FISHING

Korean waters comprise some of the best fishing grounds in the world. The Sea of Japan off the east coast provides deep-sea fishing with an average water depth of 1,700 m (5,600 ft). Warm and cold water alternate each season; the area is known for its Alaskan pollack, cod, squid, king crab, hairing crab, turban shell, and abalone. Off the west coast, the Yellow Sea has an average depth of 44 m (144 ft); major species include corker, hairtail, mackerel, surf clam, large clam abalone, lobster, Japanese paste shrimp, and blue crab. Off the south coast, the warm Pacific Ocean currents move towards the northeast, bringing diverse species such as anchovy, mackerel, oyster, mussels, shellfish, octopus, beka squid, laver, and sea mustard.

Industrialization and urbanization have led to a dramatic reduction in the number of families directly involved with fishing; from 1980 to 2000, the number of fishing families declined from

157,000 to 82,000. The fishing fleet consisted of 94,935 vessels in 2000, of which 568 were deep-sea vessels.

According to the government, the total catch in 2001 was 2,665,123 tons. Mackerel and anchovies account for about half the coastal fish landings; oysters are the principal aquacultural species; Alaskan pollack and tuna provide 80% of the deep-sea fish catch. Korean fishing bases have been established in Western Samoa and Las Palmas, and cuttlefish caught in waters off the Falkland Islands are now available. Since the declaration of 200 mi economic sea zones by many nations in the 1970s, the ROK negotiated fishing agreements with several coastal nations to secure fishing rights in their waters. Seaweed is another important aquacultural product, with 427,117 tons harvested in 2001.

The ROK exports seafood to about 65 countries throughout the world. Fisheries exports typically include tuna, shellfish, frozen/canned products, and seaweed. Japan is the largest destination for exports, annually accounting for about 75% of ROK seafood exports by value. In 2001, fisheries exports were valued at \$1,273,619,000. Fresh, chilled, and frozen fish accounted for 67% of the value; smoked, dried, and salted fish, 8%; canned fish, 18%; and other products, 7%. The rate of fish consumption in the ROK was 33 kg (73 lb) per person in 2001. Although domestic consumption is still largely tied to local production, the ROK imported \$1,648,372,000 of fish products in 2001. Major suppliers were Russia, the United States, China, Argentina, Chile, New Zealand, and Japan.

## 25 FORESTRY

Forests covered 6,248,000 ha (15,439,000 acres) in 2000, or about 63.3% of the ROK's total area, but wood supplies are grossly inadequate to meet the needs of the fast-growing plywood and paper industries. Most of the original forests were destroyed during the Korean War and have been transformed into pine forests under a massive government reforestation program. Conifers now account for 45% of the forest; broad-leaved species (such as oak), 28%; and mixed forests, 27%. About 21% of all forested land is nationally owned and is the focus of extensive reforestation efforts. The government is supporting local efforts to invest in forest development projects abroad. According to the FAO, estimated production of roundwood in 2000 was 4,041,000 cu m (142 million cu ft); sawnwood, 4,300,000 cu m (152 million cu ft); and plywood, 797,000 cu m (2.8 million cu ft). Softwoods (mostly red pine and larch) accounted for about 80% of the production; hardwoods (mainly oak), 20%. Because of low quality, domestic roundwood is mainly used for chopsticks, crates, match wood, and wood chips. Whereas plywood and wood pulp were once traditional export items, the role of forestry products in generating export earnings is now shrinking. The ROK now imports about 95% of its forest products. Imports of forest products amounted to nearly \$3.7 billion in 2000 (primarily from Indonesia, Malaysia, and the United States). Imports have been boosted by a growing demand for single and multifamily wood frame houses.

## 26 MINING

The Republic of Korea did not have significant natural resources, and its limited supplies of iron ore, coal, copper, lead, and zinc had to be supplemented by imports. In 2000, 188,000 tons of iron ore and concentrate (metal content) was produced, down from 272,000 in 1998. The output met 1% of the country's demands for its crude steel industry (which ranked sixth in the world) and its pig iron industry (which ranked eighth). Output of zinc was 11,474 tons (the Korea Zinc Group became one of the largest primary zinc producers in the world); lead output was 2,724 tons, down from 5,131 in 1996. No mine copper was produced in 1997, 1999, and 2000. The ROK also produced the metals bismuth, cadmium, gold, nickel, and silver. Among industrial minerals, the ROK produced barite, hydraulic cement,



diatomaceous earth, feldspar, graphite, kaolin, limestone, mica, nitrogen, quartzite, salt, sand (including glass sand), soda ash (manufactured), sulfur, and talc and pyrophyllite. No barite was produced in 1997–2000, and no fluorspar in 1998–2000. The production of chemicals and steel ranked third and fifth, respectively, among the country's leading industries in 2002, and steel ranked fourth among export commodities.

After four years of prospecting, Ivanhoe Mines Ltd., of Canada, announced the discovery of two epithermal gold-silver veins near Haenam, Cholla Province, with potentially high-grade gold-silver mineralization. The government continued to support state-owned or privately owned enterprises that invested in such mineral-rich countries as Australia, Brazil, Canada, and Chile. The Korea Development Bank sold off the government equity in Pohang Iron and Steel Co. Ltd. (POSCO), which had diversified interests and holdings, including a high-grade iron ore deposit in the Pilbara region of Western Australia with proven reserves of 200 million tons. Two-way trade with North Korea continued to grow.

## 27 ENERGY AND POWER

Coal is the chief fuel mined, with recoverable reserves estimated at 86 million tons in 2000 and production totaling 4.6 million tons in the same year. Most of the coal is low-quality anthracite, used mainly for home cooking and heating; imports of higher-grade coal are required for industry.

In 2000, crude oil provided 56% of all primary energy consumed, up from 9.4% in 1962, and coal, 20%. Nuclear energy, natural gas, and hydroelectricity provided the rest. Oil consumption totaled 2.1 million barrels per day in 2000, all of it imported. The Number 3 reactor at the Ulchin power plant went online in 1998, and the Number 4 reactor launched operations a year later. Units 5 and 6 are expected to be finished in 2004 and 2005. Since the 1960s, the ROK's oil sector has been heavily regulated as a means of providing manufacturers with inexpensive energy. Prices are controlled and market entry is restricted. Following the Asian economic crisis of 1997–1998, the ROK began to loosen controls over oil pricing, importing, and the export of refined petroleum products. In 1998 the refining industry was fully deregulated. Plans for the future call for a de-emphasis on oil and promotion of atomic energy, coal, and hydroelectricity as energy sources, together with importation of liquefied natural gas from Indonesia and crude oil from the United States.

In 2001, the ROK had an installed electrical generating capacity of 52 million kW, up from 9.8 million kW in 1981. The output of electricity in 2000 totaled 273.6 billion kWh, of which 60.6% was from fossil fuels, 1.5% from hydropower, 37.9% from nuclear power, and a negligible amount from other renewable sources. Industry accounts for about two-thirds of the electricity consumed. Electricity demand is projected to rise 3.4% per year on average through 2015.

## 28 INDUSTRY

Up until the 1960s, manufacturing was chiefly confined to production for domestic consumption, and a substantial proportion of the output was produced by handicraft methods in homes and small factories. While textiles, apparel and footwear were the first modern industries to be developed, heavy industry has grown rapidly over the last four decades, promoted by a series of development plans. In the 1980s, the manufacture of metals, machinery, and electronic and other equipment overtook textile production as the country's leading industries in terms of value, employment and export earnings. In turn, in the 1990s, high-tech electronics have become the leading sector as South Korea became the world's leading semi-conductor manufacturer as well as the leading shipbuilder. Prosperity brought higher labor costs, and in the last decade, South Koreans have begun

outsourcing production—particularly textiles and footwear but also more recently “commoditized” consumer electronics. During the past decade, increasing domestic production costs have encouraged the relocation of production plants in some industries—particularly textiles and footwear but more recently also consumer electronics—to overseas locations in Southeast Asia, Eastern Europe, China, Mexico, and Turkey. The ROK now ranks as a major Asian producer of electronics, automobiles, chemicals, ships, steel, textiles, clothing, shoes, and processed food. In 2002, industrial production grew 7.3% (although excluding the 21.4% growth in semi-conductors, only 5.8%) Other high value-added sectors showed above average growth: automobile production up 8.1%; machinery equipment up 7.9% and wearing apparel and fur articles, up 7.4%. The lower value-added sectors of textiles and basic metals showed the strains of global over capacity and low-cost competition. Textiles declined 6.6% and basic metals increased a weak 4.6%. Long-term plans for the textiles and clothing sectors include a shift from the current mix of 5% clothing to 30% clothing by 2010 as part of the goal of doubling export value from the 2002 level of \$15.7 billion.

Manufacturing in the ROK is dominated by a few dozen vertically integrated industrial conglomerates, known as *chaebol*, which have privileged access to financing and set the standards for contracting and procurement throughout the country. In 1995, the 30 largest chaebol accounted for 16.2% of GNP (up from 13.5% in 1992), according to the Korea Economic Research Institute. In 1999, the debts of the four biggest chaebol stood at approximately \$140 billion. Unfortunately, many of the country's chaebol have racked up huge debts in order to finance industrial expansion, some more than five times their annual intake. Asset sell-offs by the four biggest chaebols, including Hyundai, Samsung, LG, and SK amounted to \$15 billion in 1999.

Joint venture production with major US and Japanese car companies, growing domestic demand, and successful penetration of overseas markets by Korean-owned corporations has fueled steady growth in automobile output. The production of passenger cars more than doubled from 1990 to 1995. Total vehicle production in 1995 was 2,526,400, or 5% of world output. Vehicle production in 1998 was about two billion, or eighth of all OECD countries. South Korea's automotive industry is dominated by Hyundai, which accounted for 48% of all passenger cars, trucks, and buses domestically produced in 1995. Kia accounted for 25% of production that year; Daewoo, 18%; and others, 9%.

In 1998, the ROK was the second-largest world producer of new ships; in 2002 it was the world leader. In 2002, Korean shipbuilders got orders for 230 ships (2.6 million CGT), delivered 210 ships (6.8 million CGT), and had a backlog of 496 ships (17.1 million CGT).

Production of electronics has shifted from assembly of imported parts to the manufacture of competitive high-technology products, such as office automation systems, for both the international and domestic markets. Daewoo Electronics (the second-largest chaebol, with substantial debts), LG and Samsung Electronics dominate in the production of consumer electronics; the televisions, videocassette recorders, stereos, refrigerators, washing machines, and microwave ovens produced by these companies are sold across the world. Daewoo Electronics also operates 36 overseas factories and planned to capture 10% of the world's market in consumer electronics by 2000. Samsung Electronics was the world's largest producer of computer memory chips by 1996.

By 2002, ROK had become the world's fifth largest steel producer, up from 10th in 1989, accounting for 4.8% of the world total. P'ohang Iron and Steel Co. (POSCO) produces about half of the nation's total steel output, and is the world's second-

largest steel mill, producing 27.4 million tons in 2002. There are about 200 steel companies in South Korea.

## 29 SCIENCE AND TECHNOLOGY

The ROK has often been compared to its powerful neighbor, Japan, but is said to be about 10 years behind that nation in scientific and technological innovation. However, in areas such as semiconductor memory chips, cars, and steel, Korean industries provide innovation equal to that in the United States and Japan. In 1998, high technology exports were valued at \$30.5 billion and accounted for 27% of all manufactured exports.

Two organizations provide most of the main support for Korean science and technology. The Korean Institute of Science and Technology (KIST) was started in 1965 with the help of the United States. The Korean Advanced Institute of Science and Technology (KAIST), the leading university in scientific research, attracts researchers from all over the world, and is considered one of the top universities in the world for electrical and molecular engineering and computer science. In 1987-97, science and engineering students accounted for 32% of college and university enrollments.

## 30 DOMESTIC TRADE

The small family store, traditional in Korea, is giving way to chain stores and supermarkets. Large, modern department stores now operate in Seoul, Pusan and other major urban centers, although some trade in rural areas is still carried on by itinerant peddlers, mobile sidewalk stands, and periodic market fairs. Black markets offering all manner of foreign goods are much in use; haggling over prices is common. Seoul is the nation's wholesaling center. Franchising has a firm ground in the restaurant and retail markets. Direct marketing, particular door-to-door sales, is still fairly popular as well.

Most private offices are open from 8:30 AM to 6:00 PM weekdays and from 9:00 AM to 12:00 PM on Saturdays. Korean government offices keep similar hours, except for a 5:00 PM closing from November through February. Banking hours are 9:30 AM to 4:30 PM, Monday through Friday and 9:30 AM to 1:30 PM Saturdays.

## 31 FOREIGN TRADE

Various types of machinery are the Republic of Korea's most important commodity exports, accounting for 58% of exported commodities. The Republic of Korea's other major exports include woven fabrics and ships. The top 10 exports are:

	% OF COUNTRY TOTAL
Electrical machinery	18.0
Transistors, valves	14.0
Passenger motor vehicles	6.9
Telecommunications equipment	6.1
Automatic data processing equipment	5.4
Refined petroleum products	5.3
Ships	4.8
Iron and steel	4.0
Apparel	2.9
Polymers	2.7

Oil and related products, chemicals, and raw materials are major imports, as most raw inputs for the country's industrial sector are imported. A lack of small companies and technological research compels the ROK to import components and production machines for the cars, videocassette recorders, computer chips, and ships that it manufactures. In 2000 South Korea's imports were distributed among the following categories:

Consumer goods	4.9%
Food	3.7%
Fuels	23.9%
Industrial supplies	27.4%
Machinery	36.7%
Transportation	3.1%
Other	0.3%

The United States, China and Japan have continued to be the ROK's chief trading partners by far, although potential new markets in Eastern Europe and the rest of Asia are being explored. Sa'udi Arabia and Indonesia have been major providers of oil and liquefied natural gas. Australia is a leading supplier of iron ore, coal, and grains. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	37,806	29,286	8,520
China (inc. Hong Kong)	29,163	14,059	15,104
Japan	20,466	31,827	-11,361
Singapore	5,648	3,723	1,925
United Kingdom	5,380	2,576	2,804
Germany	5,154	4,625	529
Malaysia	3,515	4,878	-1,363
Indonesia	3,504	5,287	-1,783
Australia	2,606	5,958	-3,352
Sa'udi Arabia	1,262	9,642	-8,380

## 32 BALANCE OF PAYMENTS

Robust export performance turned the ROK's overall balance of payments deficit into a \$1.7 billion surplus in 1986, which grew to \$12.1 billion in 1988. Since then, the balance of payments surplus has declined; in 1990, the balance of payments had a deficit of \$274 million because of declining exports, rising imports, and a current account deficit. Over the long term, growth in exports will depend on industry's efforts to regain competitiveness lost through wage increases, labor unrest, and exchange rate changes. The deficit grew to over 4% of GDP in 1996, before subsiding in 1997 due to a shrinking currency base.

At the end of 1998, South Korea had \$20.2 billion in net outstanding loans, but by the end of 1999, it had become a net creditor. By the end of April 2001, \$33.3 billion in outstanding loans were owed the country.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of South Korea's exports was \$159.2 billion while imports totaled \$146.6 billion resulting in a trade surplus of \$12.6 billion.

The International Monetary Fund (IMF) reports that in 2001 South Korea had exports of goods totaling \$151.4 billion and imports totaling \$138 billion. The services credit totaled \$29.6 billion and debit \$33.1 billion. The following table summarizes South Korea's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>8,617</b>
Balance on goods	13,392
Balance on services	-3,527
Balance on income	-886
Current transfers	-363
<b>Capital Account</b>	<b>-443</b>
<b>Financial Account</b>	<b>2,543</b>
Direct investment abroad	-2,600
Direct investment in South Korea	3,198
Portfolio investment assets	-5,499
Portfolio investment liabilities	11,856
Other investment assets	7,458
Other investment liabilities	-11,764
<b>Net Errors and Omissions</b>	<b>-2,698</b>
<b>Reserves and Related Items</b>	<b>-13,416</b>

### 33 BANKING AND SECURITIES

In 2000, finance, insurance, real estate, and business services accounted for over half of GDP. The Bank of Korea serves as the central bank, the bank of issue, and the depository for government funds. It was established in 12 June 1950. The banking system is regulated by the Financial Supervisory Service. Other banking services are provided by the state-run Korea Development Bank, the Export-Import Bank of Korea, and nine state-run specialized banks. Commercial banking operations in 1999 were handled by 11 nationwide commercial banks, 10 provincial banks, and 42 foreign banks. Total assets of Korea's commercial banks at the end of 1998 were \$300 billion.

By 1986, as part of the government's economic stabilization program initiated in 1980, all of the five commercial banks previously under government control were denationalized. In 1993, the Korean government began a five-year financial sector reform program, including the deregulation of interest rates, and liberalization of foreign exchange. During the financial crisis of late 1997 and 1998, non-performing loan levels skyrocketed. The credit hunger of South Korean corporations can be explained in part by the failure of the stock exchange to generate the equity capital they needed. On 25 June 1998, the Korean government ordered the takeover of five failing banks, and seven other banks were put on a warning list. Of the seven, five merged, and two continued operations. Banks directly affected by these measures included Shinhan Bank, the Housing and Commercial Bank, Kookmin Bank, KorAm Bank, Hana Bank, and Hanvit Bank, among others. In 1998, efforts continued to stabilize the banking sector by increasing the capital adequacy ratio to 8%, and the government encouraged lending to small and medium-sized companies as opposed to the large conglomerate chaebols. By 2003 the government had nationalized eight failing private banks, spending \$120 billion on bailouts. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$41.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$362.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.7%.

The Korean Stock Exchange, a share-issuing private corporation, functions as the country's only stock exchange. Clearly, all was not well with the stock market in 1996, when the stock price index late in was lower than that of 1988, although the economy had virtually doubled in size in real terms over the same period. Direct access by foreigners to the stock market has been allowed since 1992; Seoul implemented unrestricted foreign access in 1998. Stock issues raised \$32 billion in 1999, as opposed to \$11 billion in 1997. International links were being forged in 2000, and the KOSDAQ was to begin stock transactions for small- and medium-sized firms.

### 34 INSURANCE

The insurance industry in Republic of Korea is overseen by the Financial Supervisory Service. In 2001, there were US\$50.537 billion direct insurance premiums written, with US\$35.392 billion of the total comprised of life insurance and US\$14.145 billion comprised of nonlife insurance. In 2001, leading life insurance companies included Samsung Life, Korea Life, Kyobo Life, and Allianz. Leading nonlife insurance companies included Samsun, Hyundai, Dongbu, LG, and Oriental. Workers' compensation, medical insurance, and unemployment insurance are all compulsory.

### 35 PUBLIC FINANCE

In recent years, Korea has moved away from the planned, government-controlled economy to a more liberal market based

economy. Privatization of some major banks and a restructuring of the *chaebols* (conglomerates) contributed greatly to the opening up of the economy.

The US Central Intelligence Agency (CIA) estimates that in 2000 South Korea's central government took in revenues of approximately \$118.1 billion and had expenditures of \$95.7 billion including capital expenditures of \$22.6 billion. Overall, the government registered a surplus of approximately \$22.4 billion. External debt totaled \$128.2 billion.

The following table shows an itemized breakdown of government 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.

EXPENDITURES	100.0%	95,700
General public services	5.1%	4,842
Defense	16.7%	15,941
Public order and safety	6.1%	5,801
Education	20.5%	19,627
Health	0.8%	746
Social security	10.8%	10,329
Housing and community amenities	2.3%	2,159
Recreation, cultural, and religious affairs	0.9%	815
Economic affairs and services	23.7%	22,659
Other expenditures	10.5%	10,046
Interest payments	2.9%	2,735

### 36 TAXATION

The principal sources of tax revenue are customs duties, corporate taxes, a defense tax surcharge imposed on corporations, a VAT of 10%, personal income taxes, and excise taxes ranging from 5% to 20%. As of 2000, the rates for corporate taxation ranged from 16% on taxable income up to ₩100 million to 28% on income over ₩100 million. In addition, there is a resident tax surcharge of 10% and a special agriculture and fishery tax imposed on corporations having taxable income over ₩500 million. There is a 24.2% withholding tax on interest. The capital gains tax is set at three rates of 20%, 30%, and 40%. Tax relief for up to five years, with a 50% exemption in the ensuing two years, is offered to new industries and corporations that are foreign exchange earners. Those in electronics receive seven years of exemption, and three years at 50%. The personal income tax is graduated from 10% to 45%.

### 37 CUSTOMS AND DUTIES

In 2000, Korea had an average tariff of 7.9%. However, tariffs remain high on a number of agricultural and fishery products, at 30% to 100%. Korea plans to further reduce tariffs in the future. Other import taxes include a value-added tax of 10% and excise taxes ranging from 15% to 100%. The special excise tax on consumer electronic goods and automobiles was cut by 30% in 1998. There were 57 items subject to quotas and 29 items subject to excise tariffs in 1999. The Information Technology Agreement (ITA) dropped most IT tariffs by 2000, with the remainder to be phased out by 2004.

### 38 FOREIGN INVESTMENT

The Foreign Investment Promotion Act (FIPA) and related regulations have governed foreign investment in ROK since May 1998 when a five year liberalization plan was announced covering a total of 11 sectors including real estate, financial services, and petroleum. The policy emphasis shifted from "control and regulate" to "promote and support." Tax benefits and incentives were provided for foreign investors in high-tech and services sectors. In December 2000, the ceiling on foreign ownership was raised from 33% to 49% when Korea Telecom—

now simply KT—was offered for privatization. KT was fully privatized in May 2002, albeit with SK Telecom as its largest share holder. Japanese share of foreign investments fell from about 50% in 1987 to 5.7% in 1998, as Japanese investors have been increasingly attracted to new centers of economic growth in Southeast Asia.

As of 2002, EU countries had the largest cumulative investment in South Korea (\$22.8 billion) followed by the United States with \$21.8 billion. To facilitate further technology transfer, the government offers particular incentives to foreign companies in 533 categories of high technology industries. Two free export zones geared towards highly technical business activities have been established at Masan (near Pusan) and Iri (near Kunsan) to provide additional incentives for investment in favored industries. There were also completed in 1996 two industrial parks, in Chonan and Kwangju. The parks are for the exclusive use of Korean firms with heavy foreign investment.

In 1998 net FDI was \$0.7 billion, a balance of an inflow of \$5.4 billion and an outflow of \$4.7 billion. Net portfolio equity investment was a positive \$3.9 billion. In 1999 and 2000 FDI inflow was \$9.3 billion in both years, and net FDI was \$5.1 billion and \$4.3 billion, respectively. Net portfolio investment was \$11.8 billion in 1999 and \$12.6 billion in 2000. After the 11 September 2001 terrorist attacks on the United States, FDI inflow dropped 62% to \$3.5 billion, producing a net inflow of only \$1.1 billion. For 2002, it is estimated that net FDI inflow turned negative (-\$.7) and that net portfolio investment was a low \$1.5 billion.

### 39 ECONOMIC DEVELOPMENT

The ROK has a market economy in which both private enterprise and foreign investors play an important role. From 1962 to 1997, overall economic development was guided by the Economic Planning Board and a series of five-year plans. The Korean economy was devastated by the Korean War, even requiring foreign food aid. As late as 1965, per capita income was only \$88 a year. From 1965, South Korea has been transformed from an underdeveloped agricultural economy to a leading Newly Industrialized country (NIC) to a leader in the new information technology (IT) economy. Nominal GDP was \$3 billion in 1965; in 2003 it is projected at \$514 billion, 171 times bigger.

The Seventh Five-Year Economic and Social Development Plan for 1992–96 aimed at establishing the ROK as an advanced industrialized economy by the year 2000. More specific goals included improving social and economic equity, continued liberalization, improving industrial and export competitiveness, as well as strengthening the role of the private sector while government intervention in economic management, especially in the financial sector, is reduced. The Plan targeted an annual GDP growth rate of 7% and a decline of consumer price inflation to 3%. The plan was overtaken by the Asian financial crisis. South Korea was assisted in weathering the crisis of confidence with a \$58 billion international support program mobilized through the IMF, the World Bank and the Asia Development Bank (ADB). In May 1998 the government introduced a five-year liberalization program covering 11 economic sectors including previously closed petroleum, insurance and financial services sectors. The ROK's recovery from the Asian financial crisis was remarkably strong, aided by the show of international confidence and its government's embrace of trade and investment liberalization reforms. However, the collapse of the dot.com boom and the global slowdown in 2001, combined with the aftermath of the 11 September 2001 terrorist attacks on the United States, dealt serious blows to the economy's forward momentum. Progress in reducing the share of non-performing loans (NPLs) in the financial sector and reducing dependency on foreign borrowing were brought to a halt. At the end of March 2001, total external liabilities were at a record \$137 billion. However, the ROK

continued to maintain its net creditor position as it has since September 1999. Foreign assets totaled an estimated \$188 billion.

In early 2003, under the shadow of increased tensions with North Korea, the ROK government announced that the four pillars of its development strategy were 1) consistently promoting technological innovation; 2) continued development of a fair and transparent market system; 3) social and cultural norms based on trust; and 4) peace and prosperity in East Asia.

### 40 SOCIAL DEVELOPMENT

Few countries have faced health and social welfare problems as acute as those caused in the ROK by the devastation of the Korean War. The war left a residue of 348,000 war widows, most of them with dependent children, and 100,000 war orphans. Some 595,260 homes were destroyed, 5,000 villages wiped out, and many large cities badly damaged. Military relief payments consist mainly of financial support to veterans and their families.

Old age, disability, and survivors' insurance is provided to all residents aged 18-59. There is a separate system for public employees, school teachers, self-employed individuals, and military personnel. Workers and employers contributed 4.5% of earnings and payroll, respectively. Medical benefits are provided to all permanent residents, and workers' compensation is extended to employees of firms with five or more workers.

Conservative Confucian tradition encourages married women to remain at home. Women continue to suffer legal and societal discrimination. Despite equal opportunity laws, very few women achieve high levels of professional success. The wage of the average female worker is roughly half of that earned by a male counterpart. Violence against women, domestic abuse, and child abuse are prevalent and appear to be increasing with the economic decline. Divorce remains socially unacceptable in most sectors of Korean society, and this leads many women to remain in abusive marriages. A new sexual harassment law went into effect in 1999.

Korean citizenship is determined exclusively by genealogy, and as a result, many Chinese born and raised in Korea are deprived of citizenship rights. Human rights are generally respected by the government. Some abuses have been reported involving detainees, but these are declining.

### 41 HEALTH

The substantial improvement in health care is directly related to improvement of diet, the rise in living standards, and the development of health and medical programs. Since the late 1970s, medical security, in the form of medical insurance and medical aid, has been expanded to cover a substantial portion of the population. The national medical insurance system was expanded in 1989, covering 94% of the population. In 1985–1995, 100% of the population had access to health care services. About 5.4% of the GDP went to health expenditures as of 1999. In the mid-1990s, there were 236 general hospitals, 351 hospitals, 6 dental hospitals, 12,629 clinics, 6,708 dental clinics, 269 maternity clinics, 53 herb doctor hospitals, and 4,062 herb doctor clinics. As of 1999, there were an estimated 1.3 physicians and 5.5 hospital beds per 1,000 people. In 2000, 92% of the population had access to safe drinking water and 63% had adequate sanitation.

The fertility rate in 2000 was 1.4 children per woman surviving her childbearing years. In 1993–96, 4% of all births were low birth weight. About 79% of married women (aged 15-49) used contraception in the years 1989–1995. In 1990-1994, immunization rates for children up to one year of age were tuberculosis, 72%; diphtheria, pertussis, and tetanus, 74%; polio, 79%; and measles, 93%. The 2000 infant mortality rate was 8 per 1,000 live births and the general mortality rate was 6 per 1,000 inhabitants. Tobacco consumption has risen substantially from 2.7 kg (6.0 lbs) to 3.2 kg (7.1 lbs) a year per adult in 1995.

As of 1999 the number of people living with HIV/AIDS was estimated at 3,800 and deaths from AIDS that year were estimated at 180. HIV prevalence was 0.01 per 100 adults. In 1994, there were 68,907 deaths related to cardiovascular disease and 14,730 deaths caused by traffic motor vehicle accidents. In 1999, there were about 69 cases of tuberculosis per 100,000 people. Life expectancy was 73 years in 2000.

## 42 HOUSING

After the liberation in 1945, southern Korea faced a housing shortage greatly compounded by high population growth rates. A housing shortage continues to plague the nation, especially in Seoul, Pusan, and other large cities, where shantytowns house many recent rural arrivals. The 1985 census counted 9,588,723 households but only 6,274,462 housing units, for a deficit of 3,314,261. According to 2000 national statistics, there were 10,959,342 housing units nationwide. About 47% were apartment units, 37% were detached houses, and 4% were found in buildings not originally intended for residential dwellings. Most units house single-family households.

## 43 EDUCATION

The Education Law of 1949 provided for a centralized system under the control of the Ministry of Education and made the six-year elementary schools free and compulsory for children between 6 and 12 years of age. Secondary education begins at 12 years of age and lasts for up to six years, which are divided into two cycles of three years each. Children attend middle school for three years, and subsequently attend either general academic high school or vocational high school for the remaining three years. In 1998 there were 3,794,447 students in 5,721 primary schools, with 122,743 teachers. Student-to-teacher ratio stood at 31 to 1. In 1997, secondary schools enrolled 4,662,492 students and employed 192,947 teachers. Also in 1997, all post-secondary institutions had a combined enrollment of 2,541,659 students and 114,231 teachers. As of 1999, 97% of primary-school-age children were enrolled in school, while 94% of those eligible attended secondary school.

The leading government university is Seoul National University. The principal private institutions, all of them in Seoul, are Korea, Sung Kyun Kwan, Yonsei, Hanyang, Chungang, and Ewha universities; the last named is one of the largest women's universities in the world. The country had a total of 121 colleges and universities in 1996, along with 335 graduate schools with a combined 1,556,949 students enrolled. For the year 2000, UNESCO estimated the rate of adult illiteracy at 2.2% (males, 0.8%; females, 3.6%). In the latter half of the 1990s, the government allocated approximately 17.5% of its total expenditure to education. As of 1999, public expenditure on education was estimated at 4.1% of GDP.

## 44 LIBRARIES AND MUSEUMS

In 2002, the Central National Library, founded in 1923, had approximately 3.8 million volumes. Most other sizable libraries in the ROK are found at universities. The largest academic collection is at the Seoul National University Library (2.2 million volumes).

The National Museum, with centers in Seoul, Kyongju, Kwangju, Puyo, Chinju, Chunju, Chongju, and Kongju contains art objects reflecting more than 5,000 years of cultural history, including statuary pieces, ceramics, and painting. A major private museum is the Ho-Am Art Museum in Seoul. The National Museum of Modern Art in Seoul presents many special exhibits as well as a permanent collection. The National Science Museum of Korea, completed in 1990 in Daejeon, is one of the country's most recent cultural sites. The ROK also possesses collections of early printing, dynastic histories, and art in its palaces and Buddhist temples, and in university, college, and public libraries.

## 45 MEDIA

In 2000, the number of main telephone lines in use totaled 24 million, with an additional 28 million cellular phones in use the same year. As of 2001, there were 104 AM and 136 FM radio stations, and 121 television broadcast stations. Television broadcasting began in 1956; in 1992 there were 57 commercial television stations, plus a US Armed Forces-Korea network broadcasting in English. In 2000, there were 1,033 radios and 364 television sets for every 1,000 people. In 2001, there were 22.23 million Internet subscribers served by about 11 service providers.

Most of the leading newspapers are published in Seoul. The leading Korean-language newspapers, with their estimated daily circulations (in 2002), include *Dong-A Ilbo*, 2,150,000; *Joong-ang Ilbo*, 2,020,000; *Hankook Ilbo*, 2,000,000; *Choson Ilbo*, 1,960,000; *Kyung-hyang Shinmun*, 1,478,540; and *Seoul Shinmun*, 700,000.

Though most radio and television stations and newspapers are state-supported, the government is said to have abandoned direct control over the news media, though some journalists report aggressive government lobbying to soften criticism, using the latent threat of KX investigations against media companies.

## 46 ORGANIZATIONS

Clan and county associations are a conspicuous aspect of Korean social life. A traditional type of organization with a primarily economic function is the kye, a mutual loan association formed to provide funds for a specific and typically short-term purpose, such as to defray the expenses of a wedding or funeral. The National Agricultural Cooperative Federation comprises millions of farmers who work in cooperatives.

There are a number of cultural and arts organizations including the Academy of Korean Studies, the Korea Foundation, and the National Academy of the Arts. Organizations for advancement and research in science include the Korean Medical Association and National Academy of Sciences of the Republic of Korea.

National youth organizations include Boy Scouts and Girls Scouts of Korea, Free Asian Youth Alliance, Korea Young Buddhists Federation, Korean 4-H, Korean Student Christian Federation, Korean World University Service, YMCA/YWCA, Seoul Association for Youth Service, and the Young Christian Workers of Korea. There are several sports associations throughout the country. Among the most notable are the base offices of the International Judo Federation and the World Taekwondo Federation.

National organizations for women include the Korean Association of University Women, Korean Institute for Women and Politics, and the Korean Women's Institute. International organizations with active chapters within the country include Amnesty International and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

Major tourist attractions are Seoul, the former royal capital of the Yi (or Li) Dynasty, and Kyongju, with its treasures from the ancient kingdom of Silla. Soccer and baseball are the most popular modern sports. Traditional sports for men are wrestling, archery, kite fighting, and t'aekwondo (a martial art). Popular games include paduk, the Korean name for Japan's board game go; changgi, or Korean chess, with pieces different from the European form; and yut, or Korean dice, played with four wooden sticks.

The tourist industry has grown rapidly, from 4,250,216 foreign visitors in 1998 to 5,321,792 visitors in 2000. The number of hotel rooms totaled 51,189 in 2000, with a 65% occupancy rate. Tourist receipts reached \$6.8 billion that year.

In 2002, the US Department of State estimated the cost of staying in Seoul at \$264 per day; expenses in Daejeon were estimated at \$183 per day.

#### 48 FAMOUS KOREANS (ROK)

The dominant political figures of the contemporary period in the ROK have been Syngman Rhee (1875–1965), president from 1948 to 1960, and Park Chung-hee (1917–79), president from 1963 until his assassination in 1979. Chun Doo Hwan (Chon Du-hwan, b.1931) became president in 1981. Other well-known modern figures include Kim Chong-p'il (b.1926), prime minister 1971–75; Bishop Daniel Chi (Chi Hak-sun, b.1921); and Kim Dae Jung (Kim Tae-jung, b.1925) and Kim Young Sam (Kim Yong-sam, b.1927), prominent opposition leaders during the 1970s and 1980s. The Rev. Sun Myung Moon (Mun Son-myong, b.1920), a controversial evangelist and founder of the Tong-il (Unification) Church, and Kyung Wha Chung (Chung Kyung-wha, b.1943), a violinist, are both internationally well known.

#### 49 DEPENDENCIES

The ROK has no territories or colonies.

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# KUWAIT

State of Kuwait  
*Dawlat al-Kuwayt*

**CAPITAL:** Kuwait (Al-Kuwayt)

**FLAG:** The flag, adopted in 1961, is a rectangle divided equally into green, white, and red horizontal stripes, with a black trapezoid whose longer base is against the staff and is equal to the breadth of the flag, and whose shorter base is equal to the breadth of the white stripe.

**ANTHEM:** National Anthem, melody only; no words.

**MONETARY UNIT:** The Kuwaiti dinar (KD) has 1,000 fils. There are coins of 1, 5, 10, 20, 50, and 100 fils, and notes of 250 and 500 fils and of 1, 5, 10, and 20 Kuwaiti dinars. KD1 = \$3.344 (or \$1 = KD0.299) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but imperial weights and measures also are in use, and some US measures are recognized.

**HOLIDAYS:** New Year's Day, 1 January; Emir's Accession Day, 25 February. Movable religious holidays include Muslim New Year (1st of Muharram); Laylat al-Miraj; Milad an-Nabi; 'Id al-Fitr; and 'Id al-'Adha'.

**TIME:** 3 PM = noon GMT.

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

Kuwait is situated at the western head of the Persian (or Arabian) Gulf. Its area is estimated at about 17,820 sq km (6,880 sq mi). Comparatively, the area occupied by Kuwait is slightly smaller than the state of New Jersey. Kuwait extends 205 km (127 mi) SE–NW and 176 km (109 mi) NE–SW. Islands that form part of Kuwait include Faylakah (an archaeological site that is the only inhabited island), Bubiyan, Maskan, 'Auha, Al-Warbah, Al-Kubr, Umm al-Maradim, Umm al-Nami, and Qaruh. Bounded on the E by the Persian Gulf, on the S and W by Sa'udi Arabia, and on the NW and N by Iraq, Kuwait has a total land boundary length of 462 km (287 mi) and a coastline of 499 km (310 mi).

Kuwait's boundary with Iraq remains unsettled. Following Kuwait's declaration of independence in June 1961, the emir requested UK assistance to ward off an Iraqi invasion; the British forces were later replaced by troops from Arab League states. The UN upheld Kuwait's sovereignty, and in October 1963, Iraq formally recognized Kuwait's independence. In March 1973 there were armed clashes on the Iraq-Kuwait border, but a settlement was announced in June 1975; negotiations to demarcate the border have continued intermittently. Again in August 1990, Iraq invaded Kuwait, asserting their right to reclaim it as their territory. US-led international forces responded with a massive air attack in January 1991, and Iraq was defeated. Some Iraqi officials continued to assert their claim to Kuwait, and relations between the two countries remained tense. On 27 May 1993, the UN Security Council reaffirmed the established border between the two nations. In 1994, Iraq formally accepted the UN-demarcated border but continues to periodically challenge the rhetoric of the agreement.

Kuwait's capital, Kuwait City, is located on the Persian Gulf coast.

## <sup>2</sup>TOPOGRAPHY

Kuwait consists almost entirely of flat rolling desert and mud flats. There is a 1137-m (450-ft) ridge at Mina' al-Ahmadi and a

290-m (951-ft) prominence in the southwest corner. There are no streams.

## <sup>3</sup>CLIMATE

During the summer, which lasts roughly from May to October, the air generally is dry, but southeasterly winds often raise daytime humidity to 90% for a few weeks in August or September. Between November and April, the climate is pleasant, with cool nights and warm sunny days. In December and January, night temperatures occasionally touch the freezing point. Summer temperatures range from 29°C (84°F) in the morning to more than 49°C (120°F) in the shade at noon. Frost, almost unknown on the coast, is common in the interior. Annual rainfall, which averages less than 25 cm (10 in), comes in the form of showers or storms between October and April. Cloudbursts have amounted to as much as 6.4 cm (2.5 in) of rain in one day, and can heavily damage roads and houses. The prevailing northwest wind (shamal) is a cooling breeze in summer.

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

Plants and animals are those common to the arid parts of Arabia. There is little vegetation except camel thorn in the desert and some shrubs along the coastal strip. Between October and March, however, when at intervals sufficient rain falls, the desert is transformed: grass and foliage are plentiful, flowers and plants appear in great variety, and in the spring truffles and mushrooms can be found. The fox and jackal have decreased in numbers; other mammals found in Kuwait include gerbils, jerboas, and desert hares. Reptile species include various lizards, geckos, and snakes. Fish are plentiful. Among the species of migratory birds are swallows, wagtails, chiffchaff, skylarks, wrens, eagles, cormorants, hoopoes, and terns.

## <sup>5</sup>ENVIRONMENT

The Persian Gulf War of 1991 and its aftermath caused severe environmental problems for Kuwait, releasing large quantities of oil into the environment and threatening the water supply. Kuwait has no renewable water resources and must rely on wells

and desalination of sea water. The nation has some of the largest and most advanced desalination plants in the world, which provides much of its water. Kuwait's cities produce an average of 0.9 million tons of solid waste per year.

In 2001, one of Kuwait's mammal species and three of its bird species were endangered. The slender-billed curlew and hawksbill turtle are on the endangered list. The Sa'udi gazelle has become extinct in the wild.

## 6 POPULATION

The Kuwaiti population declined on average by 6.5% per year during 1990-95, due in part to the Iraqi invasion and Gulf War of 1990-91. The population of Kuwait in 2003 was estimated by the United Nations at 2,521,000, which placed it as number 137 in population among the 193 nations of the world. This number includes over one million non-nationals who live and work in the country. In that year approximately 1% of the population was over 65 years of age, with another 26% of the population under 15 years of age. There were 151 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000-2005 is 3.46%, with the projected population for the year 2015 at 3,352,000. The population density in 2002 was 127 per sq km (330 per sq mi). The vast majority of the population resides along the coast.

It was estimated by the Population Reference Bureau that 98% of the population lived in urban areas in 2001. The capital, Kuwait City, had a population of approximately 165,000 in that year. According to the United Nations, the urban population growth rate for 2000-2005 was 2.3%.

## 7 MIGRATION

With the discovery of oil and the consequent rise in living standards, Kuwait acquired a large immigrant population, attracted by jobs, free education for their children, and free medical care. The number of foreign residents more than doubled during the 1970s, and in 1994 they accounted for an estimated 56.4% of the population. After the Persian Gulf war, Kuwait deported tens of thousands of foreign workers from countries whose leaders had backed Iraq in the conflict. Of the estimated 400,000 Palestinians living in Kuwait before the 1990-91 Gulf War, reportedly only about one-sixth were allowed to remain. Only about 120,000 of the 220,000 prewar Bedouins (mostly nomads from Syria, Jordan, and Iraq) were allowed to stay. These stateless Arabs had remained in Kuwait under Iraqi occupation and were suspected of collaboration. Most other foreign workers were able to return to their home countries. By 1996, however, Egyptians, Pakistanis, Filipinos and others had filled the void that the previous foreign workers left behind.

In 2000 there were 1,108,000 migrants living in Kuwait. This accounted for 57.9% of the population. The number of refugees that year was 2,800. In 2000, the net migration rate was 11.1 migrants per 1,000 population. The government views the immigration level as too high.

## 8 ETHNIC GROUPS

Ethnic Kuwaitis are mostly descendants of the tribes of Najd (central Arabia) but some descend from Iraqi Arabs. Still others are of Iranian origin. The number of non-Kuwaitis are divided roughly in half between Arabs and non-Arabs such as Iranians, Indians, Pakistanis, and Filipinos. In 1999, 45% of the population was Kuwaiti, 35% other Arab, 9% South Asian, 4% Iranian, and 7% other.

## 9 LANGUAGES

Arabic is the official language. The Arabic spoken in Kuwait is closer to classical Arabic than to the colloquial Arabic spoken in many other parts of the Middle East. English is used generally by

business people, employees of oil companies, foreign residents, and students, and it is the second language taught in the schools.

## 10 RELIGIONS

Islam is the state religion. According 2002 figures, Muslims comprise about 71% of the total population, with a majority believed to be Sunni Muslim. About 35% of Muslim citizens are of the Shi'a branch. Other religious groups are present, primarily among foreign worker groups. These include Christians (mostly Roman Catholics and Anglicans), Hindus, Parsis, Baha'is, Sikhs, and others.

## 11 TRANSPORTATION

Kuwait has a modern network of roads, with all-weather highways running north to Iraq and south to Sa'udi Arabia. Roadways extended 4,450 km (2,777 mi) in 2002, including 3,590 km (2,230 mi) of paved roads. In 2000 there were some 552,400 passenger cars, and 167,800 commercial taxis, trucks, and buses in use. Land transport accounts for a significant share of Kuwait's imports and exports. There are no railways.

Kuwait has five ports, including a cargo port at Ash-Shuwaykh, on Kuwait Bay, and an oil port at Mina' al-Ahmedi that is equipped with a huge pier at which eight large tankers can be loaded simultaneously. In 2002, Kuwait had 38 merchant ships in service with a capacity of 2,274,515 GRT. Kuwait has regular calls from ocean shipping, and local sailing craft carry goods between Kuwait and the neighboring sheikhdoms, Iraq, and Sa'udi Arabia. Sea transport accounts for most of Kuwait's foreign trade.

In 2001, there were 7 airports, 3 of which had paved runways. The principal airport, Kuwait International Airport, is located south of the city of Kuwait. Air transportation is highly advanced, with Kuwait Airways providing service to and from the major Middle Eastern and European cities. In 2001, the airline carried 2,084,600 passengers on domestic and international flights.

## 12 HISTORY

The historical records of the Arab coast of the Persian Gulf are meager. Archaeological discoveries on Faylakah Island reveal an ancient civilization about 2800 BC that had trade links with the Sumerians. By the 6th century BC, this part of the Gulf was a principal supply route for trade with India. There is evidence of early migrations to the East African coast by the seafaring inhabitants. The historical turning point for the entire Arabian Peninsula was the conversion of the people to Islam in the 7th century AD, during the lifetime of Muhammad.

Kuwait's recent history starts in 1716, when several clans of the tribe of Aniza migrated from the interior of the Arabian Desert to a tiny Gulf coastal locality, later to be called Kuwait (a diminutive of the word *kut*, meaning "fort"). In 1756, the settled tribesmen rallied around the As-Sabah family and chose as their ruler Sheikh Sabah 'Abd ar-Rahim, founder of the present ruling dynasty. During the latter part of the century, raids by land and by sea resulted in the decline of Kuwait, but after the British suppression of piracy in the region, trading and shipbuilding prospered.

During the period in which Sheikh 'Abdallah as-Sabah ruled Kuwait (1866-92), a dynastic battle raged in Arabia between the rival houses of Ar-Rashid and As-Sa'ud. The Ottoman Turks, supporting Ibn Rashid, sought to extend their control over the coastal area to the south of Kuwait. Fearing that his territory would be lost to the Turks which considered it part of their province of Basra, Sheikh Mubarak as-Sabah (r.1896-1915) asked to be taken under British protection. The British were concerned not only because of the Turkish claims but also because the Russians were seeking to set up a coaling station in Kuwait, and both the Germans and the Turks had planned to





LOCATION: 28°32' to 30°6' N; 46°33' to 48°27' E. BOUNDARY LENGTHS: Persian Gulf shoreline, 499 kilometers (312 miles); Sa'udi Arabia, 222 kilometers (139 miles); Iraq, 242 kilometers (151 miles). TERRITORIAL SEA LIMIT: 12 miles.

make it a terminus of the Berlin–Baghdad railroad. In 1899, Sheikh Mubarak agreed not to alienate any of his territory or to receive representatives of any foreign power without British consent. In return, the British offered their services as well as an annual subsidy to support the sheikh and his heirs.

On 19 June 1961, the protective treaty relations with the United Kingdom were terminated by mutual consent, and Kuwait declared itself fully sovereign and independent. By this time, the sheikhdom had already become a major oil producer and had acquired a controlling interest in the petroleum industry. Iraq refused to recognize Kuwait's independence, asserting it had inherited the Ottoman claim to the territory. Baghdad's threat of an invasion was foiled by the dispatch of British troops and later the support for Kuwait of the Arab League. Iraq then appeared to acquiesce in Kuwait's sovereignty, although border issues were never definitely resolved. During the next two decades, Kuwait succeeded in establishing an open and prosperous economy, based in large part on foreign, especially Palestinian and Egyptian, labor.

During the Iran–Iraq War, Kuwait, albeit technically neutral, rendered important assistance to Baghdad, including the transshipment of goods and the provision of over \$6 billion in loans. As a response, members of Kuwait's large Shi'a minority and other radical dissidents waged a war of terrorism against the government. Throughout the 1980s, there were bombings, assassination attempts, hijackings, and sabotage against oil facilities.

In 1987, Iranian attacks on Persian Gulf shipping led Kuwait to request US protection for its supertankers. Washington agreed and when a "reflagged" Kuwaiti vessel was attacked, American forces retaliated against an Iranian offshore oil rig.

With the end of the war, Iraq–Kuwait relations were stable until 1990 when Saddam Hussein accused his neighbor of waging economic warfare against Iraq by illegally drilling oil from the shared Rumailia field, overproducing oil to drive down prices and unfairly demanding repayment of wartime loans. Tensions could not be defused by negotiations or mediation and on 2 August 1990, Iraqi forces invaded Kuwait, asserting that they were rightfully reclaiming their territory. Kuwaiti defense forces offered little resistance and most senior officials fled the country.

The United States led an international coalition of Arab and other nations to demand the withdrawal of Iraqi forces. After a lengthy buildup of forces, Iraq was assaulted by massive air and land forces; after six weeks, its defenses collapsed and Kuwait was liberated in February 1991. Kuwait's leaders returned to find a disgruntled population that resented their abandonment and demanded greater political participation. Enormous physical damage had been inflicted on the country, including over 700 oil well fires that did serious ecological damage before being extinguished after almost nine months' effort.

The regime, and many Kuwaitis, turned harshly against those suspected of collaboration with Iraq. As a consequence, much of the large Palestinian community was ejected from the country.

Relations with Iraq naturally remained tense, with some Baghdad officials continuing to assert their claim to Kuwait. On 27 May 1993, the UN Security Council reaffirmed the decision of a Boundary Demarcation Commission establishing the border between the two nations. Kuwait's vulnerability to possible attack from Iraq or Iran drew the nation closer to the United States, which has been willing to offer enhanced security collaboration.

In October 1994, Iraq began moving 60,000 troops to within 32 km (20 mi) of the Kuwaiti border. The UN Security Council voted unanimously to condemn Iraq's actions, and the United States, the United Kingdom, and other countries came to Kuwait's assistance. Kuwait agreed to allow the United States to station a squadron of 24 warplanes there as part of a broad effort to curb Iraqi military power. The plan kept reserves of American warplanes and a division's worth of tanks and armor stationed in the region. On 10 November 1994 Iraq agreed to recognize the independence and current borders of Kuwait, a major step apparently aimed at allowing at least some UN sanctions against Iraq to be lifted. However, in August 1995, Iraqi troop movements along the Kuwaiti border caused alarm again, and the United States began sending ships carrying equipment and supplies to the Persian Gulf. In April 1996, an international military exercise (involving forces of the United States, the United Kingdom, Russia, China, Italy, and other Arab nations) was held in Kuwait. The UN also renewed its multinational force of border observers in April 1996 to oversee the 14-km (9-mi) demilitarized zone that separates Kuwait from Iraq.

Although some of its neighbors in the Persian Gulf began to pursue a rapprochement with Iraq over the following years, Kuwait maintained its vigilance against the regime of Saddam Hussein. Early in 1998 it granted expanded staging areas to the United States in anticipation of possible military action in response to Iraq's failure to cooperate with UN weapons

inspections. At the end of 1998 it supported NATO air strikes against Iraq over the same issue. In January 1999, Kuwait placed its military on full alert in response to renewed threats from Iraq. As of 2000, a special UN commission had awarded \$15.7 billion in reparations for damages suffered in Iraq's 1990 invasion of Kuwait. In January 2003, Iraqi and Kuwaiti officials resumed talks on the fate of people who went missing during the Iraqi occupation of Kuwait in 1990–91. Kuwait claims Iraq must account for more than 600 Kuwaitis who disappeared during the occupation. Iraq insists it holds no such detainees, and accuses Kuwait of failing to account for more than 1,000 Iraqis.

On 8 November 2002, the UN Security Council passed Resolution 1441, calling on Iraq to disarm itself immediately of weapons of mass destruction (chemical, biological, and nuclear weapons), to abide by all former UN resolutions regarding the country since the end of the 1991 Gulf War, and to allow for the reintroduction of UN and IAEA weapons inspectors (they were expelled from the country in 1998). The United States adopted a firm position toward Iraq's disarmament, which it disputed, and by March 2003, was preparing for war. Since Kuwait's liberation from Iraq in 1991, it became the world's largest per capita defense spender. As of 2003, Kuwait had purchased Patriot anti-missile batteries, F/A-18 warplanes, and Apache attack helicopters for a military force estimated at 15,500, with 23,700 in reserves. However, Kuwait was not expected to take part in the expected US-led invasion of Iraq; instead, its forces were to defend the country from retaliation or other form of attack by Iraq. By early March 2003, nearly 140,000 US and British military personnel had arrived in Kuwait.

On 21 January 2003, a civilian contractor for the US military was killed and another wounded when their car was fired upon outside Kuwait City. A Kuwaiti man was arrested and claimed responsibility for the shooting, expressing support for Osama bin-Laden's al-Qaeda organization. Kuwait is concerned with a rise in Islamic fundamentalism and anti-American sentiment.

On 19 March 2003, the United States launched air strikes on Baghdad, and the war in Iraq began. Iraq fired a number of missiles at Kuwait, and one struck a mall in Kuwait City, but resulted in no deaths. Most of the missiles were destroyed by defensive Patriot missiles. The regime of Saddam Hussein was toppled on 9 April, and the military stage of the war ended soon after. Plans for the reconstruction of Iraq and for the establishment of a legitimate government were in the making in April, but it was acknowledged such progress could take years.

In May 1999, the emir of Kuwait dissolved the National Assembly in the wake of a long-standing political deadlock between government and opposition forces. However, the opposition gained even more ground in national elections held in July, with both Islamists and liberals gaining addition seats. Among the matters awaiting parliamentary consideration was a controversial decree by the emir that would allow women to vote and run for office by the next election, scheduled for 2003. Parliament on 23 November 1999 voted against the emir's decree to grant full political rights to women.

### 13 GOVERNMENT

According to the constitution of 16 November 1962, Kuwait is an independent sovereign Arab state, under a constitutional monarch. Executive power is vested in the emir, who exercises it through a Council of Ministers. Succession is restricted to descendants of Mubarak as-Sabah; an heir apparent must be appointed within one year of the accession of a new ruler. The emir appoints a prime minister after traditional consultations and appoints ministers on the prime minister's recommendation. Emir Sabah as-Salim as-Sabah died in December 1977 after a reign of 12 years and was succeeded by Emir Jabir al-Ahmad al-Jabir as-Sabah. The as-Sabah family, advised by wealthy merchants and other community leaders, dominates the government.

The National Assembly (Majlis) consists of 50 elected representatives. Elections are held every four years among adult literate males who resided in Kuwait before 1920 and their descendants; candidates must be Kuwaiti males at least 21 years of age. As a result, the electorate only accounts for about 10% of Kuwait's total population. In 1996, naturalized citizens who did not meet the pre-1920 qualification but had been naturalized for 30 years became eligible to vote. The assembly may be dissolved at any time by the emir. It was dissolved in 1976, as part of a political crackdown that followed the government's announced support of Syrian intervention in Lebanon. Elections were held in February 1981 and a new assembly was convened after elections in 1985; it was dissolved once again in 1986 as a result of national tensions over the Iran-Iraq war. It remained suspended until elections in October 1992. In 1993, the new Assembly actively produced new legislation, including a national budget. The emir suspended the Assembly once again in 1999, but new elections were held within two months.

### 14 POLITICAL PARTIES

Political parties are prohibited, but opposition groups are active in the nation's political life. Several political groups act as de facto parties: Bedouins, merchants, Sunni and Shi'ite activists, and secular leftists and nationalists. Political opinions are freely expressed in informal gatherings in the homes of government officials and leading citizens.

Pro-government forces gained ground over Muslim fundamentalist candidates in the elections of 8 October 1996. Following the 1999 elections, the Assembly was split almost evenly between pro-government, liberal, and Islamic members. Pro-government forces held 13 seats, with the rest held by Islamic and liberal parties, and unaffiliated independents.

The Islamists are divided between the Ikhwan, which traces its political antecedents to Egypt's Muslim brotherhood, and two Salafi groups which draw inspiration from Sa'udi Arabia. Current political groupings include the Islamic Constitutional Movement (ICM) and the Islamic Popular Group (of the Salafi tendency), two Sunni organizations; the Islamic National Alliance, the main faction for Shi'a Muslims; the Kuwait Democratic Forum (KDF), a loose association of groups with Nassarist and pan-Arabist foundations; and the National Democratic Group, composed of generally secular progressives with liberal tendencies. The rest are independents or are tribal confederations.

### 15 LOCAL GOVERNMENT

There are five governorates (Ahmadi, Al Jahrah, Al Kuwayt, Hawalli, and Al Farwaniyah), but political authority is highly centralized in the capital. A tradition of *diwaniyya*, or family or tribal gatherings, serves as a forum for debate in society, largely oriented around the proceedings of parliament.

### 16 JUDICIAL SYSTEM

The system of Muslim law (the *Shari'ah*) was augmented by 1959 legislation that established courts of law, regulated the judicial system, and adopted modern legal codes. In each administrative district of Kuwait there is a summary court, composed of one or more divisions, each presided over by one judge. The summary courts deal with civil and commercial cases and leases. A tribunal of first instance has jurisdiction over matters involving personal status, civil and commercial cases, and criminal cases, except those of a religious nature, cases in which the amount involved exceeds KD 1,000. The High Court of Appeals is divided into two chambers, one with jurisdiction over appeals involving personal status and civil cases, the other over appeals involving commercial and criminal cases. State security court decisions may be appealed to the court of Cassation. Ordinary criminal cases may be appealed to the High Court of Appeals. The five-member

Superior Constitutional Court is the highest level of the Kuwaiti judiciary. The Superior Constitutional Court interprets the constitution and deals with disputes related to the constitutionality of laws, statutes and by-laws. A military court handles offenses committed by members of the security forces. Religious courts, Sunni and Shi'a, decide family law matters, but there is also a separate domestic court for non-Muslims. There is no Shi'a appellate court. Shi'a cases are adjudicated by Sunni courts of appeals on appeal.

While the 1962 constitution guarantees an independent judiciary, the executive branch retains control over its administration and budget. The Emir, after recommendation of the Justice Ministry, appoints judges in the regular courts. Kuwaiti nationals receive lifetime appointments; non-Kuwaiti judges receive renewable terms of one to three years.

The constitution gives the authority to pardon and commute sentences to Emir. The Special State Security Court was abolished in 1995.

## 17 ARMED FORCES

Kuwait's armed forces totaled 15,500 volunteers in 2002. The army had 11,000 personnel equipped with 368 main battle tanks. The air force numbered 2,500 and had 81 combat aircraft. The navy had 2,000 personnel and 16 craft. There is a 6,600-member National Guard. The UN provides troops and observers in Kuwait. The US maintains a military presence with 7,388 troops stationed in Kuwait. Estimated defense expenditures in 2001 were \$1.9 billion or 5.5% of GDP.

## 18 INTERNATIONAL COOPERATION

Kuwait was admitted to UN membership on 14 May 1963 and is a member of ESCWA and all the nonregional specialized agencies. It belongs to the Arab League, G-77, OPEC, and OAUPEC; in 1981, it was a leader in forming the GCC with Sa'udi Arabia and four other Gulf states. Kuwait is a signatory of the Law of the Sea and a member of the WTO.

## 19 ECONOMY

The discovery of oil in 1934 transformed the economy. Kuwait's enormous oil reserve of 94 billion barrels and huge quantities of natural gas have provided the base for an economic presence of worldwide significance. The Kuwaiti standard of living was among the highest in the Middle East and in the world by the early 1980s. Oil wealth has stimulated trade, fishery development, and service industries. The government has used its oil revenues to build ports, roads, an international airport, a seawater distillation plant, and modern government and office buildings. The public has also been served by the large-scale construction of public works, free public services, and highly subsidized public utilities, transforming Kuwait into a fully developed welfare state. Prudent management of budgetary allocations and development priorities, as well as substantial interest from overseas investment, helped cushion the adverse impact of the collapse of the Souk al-Manakh—an unregulated curbside securities market—in 1982, the collapse in world oil prices during the mid-1980s, and the 1980–88 Iran-Iraq war. In addition, acquisition in Western Europe of 5,000 retail outlets (marketed under the name “Q-8”) and expansion into the manufacture and sale of refined oil products bolster the Kuwaiti economy.

Oil extraction and processing accounts for about 50% of GDP, 90% of export earnings, and 75% of government revenues. Kuwait's economy suffered enormously from the effects of the Gulf War and the Iraqi occupation, which ended in February 1991 with the destruction of much of Kuwait's oil production capacity and other economic infrastructure. The damage inflicted on the economy was estimated at \$20 billion. Real growth in the GDP was estimated at 22.4% in 1993, 1.1% in 1994, and 3% in

1995. Economic improvement from 1994 to 1997 was largely from growth in the industrial and financial sectors. The “Difficult Debts Law,” which aided investors with losses incurred during the Iraqi invasion and an informal stock crash in the early 1980s significantly improved investor confidence. Reversing this trend, the GDP shrank 16% due to a large decline in world oil prices. The loss was more than restored by the recovery of oil prices beginning in the second half of 1999. GDP rose 17.22% in 1999, and then an extraordinary 26.88% in 2000. Inflation rose to 4.7% in 1999, but declined to 2.7% in 2000. Gross domestic product growth in 2001 was 5.43% and inflation was down to 2%. From 1999 to 2001 per capita GDP rose from \$13,082 to \$17,880. Kuwait's portfolio investments have generally served to double the income it receives from its basic oil industry.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Kuwait's gross domestic product (GDP) was estimated at \$30.9 billion. The per capita GDP was estimated at \$15,100. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2001 was 2.7%. 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 industry accounted for 60% of GDP and services 40%.

Foreign aid receipts amounted to about \$2 per capita. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

In 1998, the labor force was estimated at 1.3 million workers, many of whom were not Kuwaiti nationals. In 2002, 93% of the domestic workforce was employed by the public sector, while foreign workers make up 94% of the private workforce. The government-owned oil industry dominates the economy. The unemployment rate was under 2% in 1996, the last year in which statistics were available.

Although workers are legally permitted to join unions, less than 5% of the labor force are union members. Virtually all are affiliated with the Kuwait Trade Union Federation, the only trade federation allowed by law. The government performs a pervasive supervisory role of all unions, both subsidizing union expenses and carefully monitoring union activities. The right to strike is severely limited, and strikes rarely occur. About 10% of union members are foreign workers, but foreign workers must be in Kuwait for five years before they join a union and then may not vote in elections or hold official positions. The right to strike is limited.

In general, all workers are entitled to a 48-hour workweek, compensation for overtime, sick leave, termination pay, and access to arbitration for settlement of disputes. However, many laborers from developing countries are willing to tolerate poor or unhealthy working conditions in order to earn a wage significantly higher than in their own countries. The minimum working age is 18, although children who are at least 16 may work limited hours in non-hazardous occupations. Foreign workers must be at least 18 to work in Kuwait. In 2002, the public sector minimum wage was about \$742 per month for citizens and \$296 per month for non-citizens. Health and safety standards are lax in regard to foreign workers.

## 22 AGRICULTURE

Only 0.3% of the total land area is utilized for the cultivation of crops; permanent pasture land amounts to 7.7% of total land area. Despite the absence of rivers and streams, and the paucity of rain, the development of agriculture has been actively pursued.

The government apportions arable land at nominal prices on a long-term basis among farmers to stimulate production of vegetables and other crops. It also provides farmers with long-term loans and low-cost irrigation. The state has supplied extension services and demonstration centers for new farming techniques in the attempt to increase agricultural production. Nevertheless, farming contributes less than 1% of the non-oil GDP. Agricultural output in 1999 included 134,000 tons of vegetables and melons, and 10,000 tons of fruit.

### **23 ANIMAL HUSBANDRY**

When the desert is green (from the middle of March to the end of April), about one-fourth of Kuwait's meat supply is provided locally. The 2001 livestock population included: cattle, 22,000; sheep, 630,000; goats, 130,000; and chickens, 32,463,000. Kuwait's poultry production has recovered from damages inflicted during the 1990 invasion. Production in 2001 was estimated at 42,000 tons, exceeding the previous high of 21,000 tons in 1989. A small number of Bedouins raise camels, goats, and sheep for meat and milk.

### **24 FISHING**

Small boats catch enough fish to satisfy local demand. Species caught include sardines, mackerel, tuna, shark (for the fins exported to China), barracuda, and mullet. Crabs, crayfish, and oysters are plentiful, and undik and zubaidi (butterfish) are both tasty and very popular. Shrimp are produced for a growing export market. The fish catch in 2000 totaled 6,300 tons, down from 8,466 in 1993 but up from the low of 2,034 in 1991, the year of the Iraqi invasion.

### **25 FORESTRY**

There are no natural forests in Kuwait. The government's afforestation projects cover an area of about 5,000 hectares (12,300 acres). Imports of forest products totaled \$97.7 million in 2000.

### **26 MINING**

In addition to petroleum and natural gas, the country's main commodities, Kuwait produced caustic soda, chlorine, cement, clays, clay products, fertilizer, lime, salt, and sand and gravel. The cement and fertilizer production plants were damaged by retreating Iraqi troops during the 1991 Gulf War. Cement production rose from 98,000 tons in 1991 to 500,000 in 1996 and two million tons in 2000. Ammonia production (nitrogen content) in 2000 was 409,500 tons; and output of urea (nitrogen content) was 287,600 tons.

### **27 ENERGY AND POWER**

The Persian Gulf is geologically unique: sedimentary deposits are combined with large, relatively unbroken folding that results in underground oil reservoirs 16 to 240 km (10–150 mi) long, containing billions of barrels of oil. Kuwait's known petroleum deposits outrank those of any other country except Sa'udi Arabia and Iraq. With proved reserves of about 96.5 billion barrels (13.3 billion tons) in early 2002, Kuwait possesses more than 9% of the known global resources of petroleum.

Since its liberation from Iraqi occupation in February 1991, Kuwait has focused on the quick rebuilding of its preinvasion oil-based economy. During the occupation, oil production totally ceased following Iraqi sabotage and the havoc of Operation Desert Storm (the name of the allied military operation to free Kuwait). Iraqi troops had blown up 752 wells; 603 were ablaze while another 44 were gushing oil, creating oil lakes throughout the country. By November 1991, the fires were extinguished and the wells were under control, but the sabotage resulted in the loss of 1.1 billion barrels of oil. Crude oil production resumed in June 1991, exports in August 1991. Losses during the invasion had

cost Kuwait \$120 million per day. By 1994, Kuwait's oil industry was back to full strength, producing a total of 2.0 million barrels a day, a rate last reached in 1989.

In 2001, Kuwait had a crude oil output averaging 2.15 million barrels per day. The cost of production is perhaps the lowest in the world because Kuwait's vast pools of oil lie fairly close to the surface and conveniently near tidewater; the oil rises to the surface under its own pressure and, owing to a natural gradient, flows downhill to dockside without pumping. Reserves of natural gas in early 2002 were estimated at 1.5 trillion cu m (53 trillion cu ft); 9.6 billion cu m (170 billion cu ft) of natural gas were produced in 2000.

The Kuwait Petroleum Corp. (KPC), the state-run oil corporation, has a 30% share in offshore operations in the 16,000 sq km (6,200 sq mi) Neutral Zone partitioned between Kuwait and Sa'udi Arabia under a 1992 agreement. The Kuwait National Petroleum Co. (KNPC), is the refining and shipping arm of KPC. Kuwait Oil Company (KOC), another subsidiary of KPC, runs oil and gas exploration and production. KNPC has a monopoly on all petroleum sold domestically and operates the refinery complex at Sha'iba.

Oil was first discovered in commercial quantities in 1936, but only small amounts were produced before the end of World War II (1939–45). Commercial production began in 1946, and from 1951 on, a 50–50 profit-sharing plan governed the split of revenue between the Kuwait Oil Company and Kuwait's emir. KOC's concession (which was to run to the year 2026) covered all of Kuwait and its territorial waters, but in May 1962, it relinquished nearly half its area to the state. As of 1996, Kuwait was privatizing many of its state-owned companies, upon the recommendation of the World Bank. In March 1996 KNPC announced it would sell off 80% of its retail assets. With the dramatic rise in oil prices between 1999 and 2002, Kuwait's forecasted budget deficit of \$6 billion for 2001/02 turned into a surplus of roughly the same amount.

All electric power is produced thermally from oil or natural gas. Installed capacity has grown dramatically during the past two decades and reached 8.5 million kW in 2001. Electric power production increased from 2,661 million kWh in 1970 to 20,610 million kWh in 1990 before falling to only 9,100 million kWh in 1991, due to the Iraqi invasion. In 2000, electricity generation totaled 30.6 million kWh, of which 100% was from fossil fuels. Most of the country is provided with electrical service; electric refrigeration and air conditioning are widely available. An extensive diesel power generating system serves outlying villages.

### **28 INDUSTRY**

Although oil extraction continues to be the economic mainstay, Kuwait has diversified its industry. Small-scale manufacturing plants produce ammonia, fertilizer, paper products, processed foods, and other consumer goods. In 2002, the food processing industry was expanding, with growth sectors including vegetable oils, beverage bases, breakfast cereals, poultry parts, cheese, frozen vegetables, and snack foods. In 2002, Kuwait had three oil refineries with a total refining capacity of 828,000 barrels a day, including 773,000 barrels per day of crude oil distillation, 41,000 barrels per day catalytic cracking capacity, and 14,000 barrels per day reforming capacity. The major refinery products were fuel oil, gas oil, naphtha, kerosene, and diesel fuel. Industrial products include desalinated water, chemical detergents, chlorine, caustic soda, urea, concrete pipes, soap, flour, cleansers, asbestos, and bricks. The construction industry is highly developed.

Manufacturing all but stopped during the Iraqi invasion due to shortages of inputs and looting of equipment. After liberation the sector was hard-hit by the departure of Palestinian skilled labor. Low international oil prices have cut down on the value of industrial exports, but increases from the latter half of 1999 have

produced windfall returns. In 2000, industry accounted for 60% of GDP.

## 29 SCIENCE AND TECHNOLOGY

High technology in Kuwait has been largely confined to the oil industry and has been imported, along with the scientists and technicians needed to install and operate oil refineries and related facilities.

The Kuwait Institute for Scientific Research, founded in 1967 at Safat, promotes and conducts scientific research in the fields of food resources, water resources, oil sector support, and environmental studies. The Agriculture Affairs and Fish Resources Authority has an experimental research station in Safat.

Kuwait University, founded in 1962 at Safat, has colleges of science, engineering and petroleum, medicine, and allied health sciences and nursing. The College of Technological Studies, in Shuwaikh, was founded in 1976. The Telecommunications and Navigation Institute, at Safat, was founded in 1966. In 1987–97, science and engineering students accounted for 29% of college and university enrollments.

## 30 DOMESTIC TRADE

Until the early 1960s, the traditional small shop or market stall dominated retail trade. In recent decades, however, modern business centers with hundreds of new shops and offices have opened, and some smaller villages have developed retail stores with impressive stocks of foreign goods. Franchising is also becoming well established, though most of the franchise market is currently held by American fast-food and restaurant firms. The city of Kuwait is the distribution center for the emirate and serves the transit trade of nearby states.

Usual business hours in summer (May to October) are from 6 AM to noon and from 4 to 6 PM; during the rest of the year, from 7 AM to noon and from 3 to 6 PM. Stores are closed Fridays.

## 31 FOREIGN TRADE

For many years, Kuwait had maintained a boycott of imports from Israel. However, after liberation from Iraqi occupation in 1991, Kuwait relaxed its trade policies so that Israeli companies previously subject to boycott were permitted to do business in Kuwait. Kuwait also announced a trade embargo against the countries it regarded as having supported Iraq during the occupation—Jordan, Yemen, Tunisia, Sudan, Algeria, and Mauritania. Major export partners in 1997 were Japan (24%), India (16%), the United States (13%), South Korea (11%), and Singapore (8%). Imports came primarily from the US (22%), Japan (15%), the United Kingdom (13%), Germany (8%), and Italy (6%).

The export of fuels sustains Kuwait, accounting for the vast majority of commodity exports (91%). Kuwait is the source of 3.3% of the world's crude petroleum exports. Polymers are another important export (4.8% of Kuwait's exports).

In 1999 Kuwait's imports were distributed among the following categories:

Consumer goods	22.3%
Food	15.2%
Fuels	0.5%
Industrial supplies	22.4%
Machinery	20.5%
Transportation	19.0%
Other	0.1%

## 32 BALANCE OF PAYMENTS

Kuwait enjoys a highly favorable payments position because of its huge trade surpluses. The Kuwaiti dinar is completely covered by the country's reserve fund, 50% of which must be in gold.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Kuwait's exports was \$16.2 billion while imports totaled \$7.4 billion resulting in a trade surplus of \$8.8 billion.

The International Monetary Fund (IMF) reports that in 2001 Kuwait had exports of goods totaling \$16.2 billion and imports totaling \$6.93 billion. The services credit totaled \$1.79 billion and debit \$5.34 billion. The following table summarizes Kuwait's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>8,562</b>
Balance on goods	9,238
Balance on services	-3,551
Balance on income	4,956
Current transfers	-2,081
<b>Capital Account</b>	<b>2,931</b>
<b>Financial Account</b>	<b>-6,036</b>
Direct investment abroad	-323
Direct investment in Kuwait	-39
Portfolio investment assets	-7,372
Portfolio investment liabilities	-78
Other investment assets	430
Other investment liabilities	1,347
<b>Net Errors and Omissions</b>	<b>-2,553</b>
<b>Reserves and Related Items</b>	<b>-2,905</b>

## 33 BANKING AND SECURITIES

The Central Bank of Kuwait, established in 1969, formulates and implements the nation's monetary policy, regulates the currency, and controls the banking system. There are seven commercial banks with 96 branches in Kuwait, of which one is a single-branch operation belonging to a joint-venture bank (the Bank of Bahrain and Kuwait). Apart from this special case, foreign banks are not permitted to operate within Kuwait or to own shares in Kuwaiti-banks. Kuwaiti bank shares are typically closely held, either by the government and its agencies or by the merchant families who founded them. The preeminent bank is the National Bank of Kuwait, which at the end of 1999 accounted for one-third of all Kuwaiti bank branch assets.

The Central Bank of Kuwait only took on a serious regulatory role in 1984, after a debt crisis engulfed commercial banks, all of which had exposure to the collapsed informal stock market. However, the Central Bank's powers are limited, and, although it considers some of the banks to be too weak to be competitive, it has so far been unable to force mergers.

There are three specialized banks, one of which, Kuwait Finance House, operates as a commercial bank restricted to Islamic financial transactions. The other two, Industrial Bank of Kuwait and Kuwait Real Estate Bank, were created to provide long-term credit at a time when the supply of fresh capital from the public sector was not constrained. In the more austere environment since the war, they function like a US investment bank. The idea of establishing more Islamic banks has been welcomed. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$5.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$30.0 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.62%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.25%.

Kuwait's official securities exchange, the Kuwait Stock Exchange (KSE), first introduced in 1962, was founded in 1977, and handles only government bonds and securities of Kuwaiti companies. An unofficial and unregulated securities exchange, the Souk al-Manakh, listing the stocks of 45 Gulf companies outside Kuwait and considered highly speculative, collapsed

suddenly in August 1982. At the time of the crash, some 6,000 investors and \$94 billion in postdated checks drawn in anticipation of future stock price increases were said to be involved. In order to limit the effect of the collapse on the Kuwaiti economy, the government created a special rescue fund to pay compensation to small investors for validated claims. All trading operations of the KSE were suspended on the Iraqi invasion of Kuwait on 2 August 1990. The KSE recommenced trading on 28 September 1992. On the exchange, 1995 was a banner year. The combined effect of rapidly expanding credit and privatization resulted in a 36% increase in the stock price index and a 226% increase in trading volume. By the end of 2001, 88 companies were listed with a total capitalization of KD26.7 billion (\$86.9 billion) and a trading value of KD11.7 billion (\$38 billion). Only Gulf Cooperation Council (GCC) citizens are permitted to buy shares in Kuwaiti companies.

### 34 INSURANCE

The insurance sector is closed to foreign institutions. As of 2000, the insurance sector was dominated by three companies: Ahlia Insurance, Gulf Insurance, and Kuwait Insurance Co. Marine, fire, accident, and life insurance policies constitute the bulk of all policies issued. Third-party liability insurance for motor vehicles is compulsory. In 2001, there was US\$60 million spent on life insurance premiums and US\$199 million on nonlife insurance premiums in Kuwait.

### 35 PUBLIC FINANCE

Much of the recent improvement in public finances is the result of higher oil prices and production, rather than government reforms. In 1994, the Kuwaiti government began to consider various austerity measures, which became a source of debate in parliament. Several plans in discussion call for reductions in government subsidies and welfare benefits, increases in taxes, privatization of state-owned businesses, and banking sector reforms. Subsidies are one of the most contentious and politicized austerity measures; in 1995, the Ministry of Finance stated that the country annually spends \$1.8 billion on utility subsidies and free health care. The Kuwaiti cabinet passed a reform package in 1999, including a reduction in subsidies and increasing taxes on luxury goods. A government surplus of about 15% of GDP in 2000 was reduced to a deficit of over 2% in 2001 as a result of soft world oil prices.

The US Central Intelligence Agency (CIA) estimates that in 2001/2002 Kuwait's central government took in revenues of approximately \$11.5 billion and had expenditures of \$17.2 billion. Overall, the government registered a deficit of approximately \$5.7 billion. External debt totaled \$6.9 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.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>11,500</b>
Tax revenue	10.0%	1,145
Non-tax revenue	90.0%	10,352
Capital revenue	<0.1%	4
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>17,200</b>
General public services	9.2%	1,584
Defense	17.3%	2,972
Public order and safety	9.4%	1,615
Education	14.8%	2,547
Health	7.2%	1,230
Social security	20.4%	3,506
Housing and community amenities	4.8%	818
Recreation, cultural, and religious affairs	3.1%	538
Economic affairs and services	9.9%	1,707
Other expenditures	4.0%	683

### 36 TAXATION

Income from oil concessions is based on royalties, generally at the rate of 50% or higher. Individual or local company incomes are tax exempt. Profits of foreign corporations are taxed at rates ranging from 5–55% of the total Kuwait-source profit. The only other tax is a 5% levy on a shareholding company's profit payable to the Kuwait Foundation for Scientific Research. Kuwaiti citizens are exempt from paying taxes. The government passed a law to introduce limited taxation in 2000, in the form of sales taxes.

### 37 CUSTOMS AND DUTIES

Customs duties are generally 4% ad valorem, but many goods are admitted duty-free. The tariff on cigarettes was reduced to 70% (from 100%) as of July 1997. Imports of liquor are prohibited by law. Protective tariffs may be levied at up to 25%.

### 38 FOREIGN INVESTMENT

Through tax concessions, Kuwait welcomes foreign investment in heavy and light industries, but continues to resist foreign investment in the oil sector. In May 2000 the government passed the Indirect Foreign Investment Law, allowing the purchase of up to 100% of the stock of companies listed on the Kuwait Stock Exchange except for banks. In March 2001 the government passed a liberalized Foreign Investment Law that, together with a five-year privatization plan announced July 2001, is expected to substantially increase foreign investment in Kuwait. Previously, foreign investment was not permitted in certain sectors such as banking or insurance, and was restricted to less than 49% of ownership shares in permitted areas. Foreign investors are no longer required to have a Kuwaiti sponsor, but are subject to a 55% corporate tax that Kuwaiti companies do not pay. Major foreign investors in Kuwait as of 2001 included Japan's Arabian Oil Company and US-owned Texaco. In July 1995, the Union Carbide Corp. and Kuwait's Petrochemical Industries Co. began construction of a \$2 billion petrochemical plant, the biggest joint venture involving a foreign company to date in Kuwait. Foreign investment totaled \$110 million in 1995. Foreign direct investment (FDI) has historically been low and not encouraged by a government concerned "Kuwaitization" of the economy. In 1997, FDI was reported at \$20 million, rising to \$59.1 million in 1998, and reaching \$72.3 million in 1999. However, FDI inflow fell to \$16.3 million in 2000, and then in 2001 turned into a net outflow of -\$39 million.

Low inward investment contrasts with remarkably high outward investment, though the government does not publish any statistics for these activities. Kuwaiti outward investment consists of portfolio investments held by the Kuwait Investment Authority (KIA), other direct investments by other government entities, and outward investments by private citizens. The KIA portfolio was estimated to have reached about \$60 billion in 2002. Entities like the Kuwait Petroleum Corporation have sizeable investments in production, refining and marketing activities abroad, but only the roughest estimates as to their value can be made. Investments by private citizens are thought to at least equal the government's holdings.

### 39 ECONOMIC DEVELOPMENT

Since the mid-1970s, Kuwait has restrained its spending on economic development and has fostered a policy of controlled growth. From 1977 to 1982, allocations for development projects remained steady at \$1.7–2.5 billion annually, of which 76% was spent on public works, electric power plants, and desalination and irrigation projects. Development plans for the 1980s, stressing industrial diversification, included the expansion of local oil refineries and major projects in petrochemicals, electricity, water supply, highway construction, and

telecommunications. Overseas, refining and marketing operations were stepped up.

Post-war economic planning was hampered by the expulsion of the mainly Palestinian middle-ranking civil servants in various government departments. The Industrial Bank of Kuwait played a major role in the industrial redevelopment of the emirate following the war. Diversification and privatization continue to be the strategic goals of the government to increase employment and counter the abrupt swings in the economy due to the heavy dependence on the oil sector. Increased foreign investment has come to be seen as essential to these goals. In May 2000, the government passed the Indirect Foreign Investment Law, allowing foreign investors to buy up to 100% of companies listed on the Kuwait Stock Exchange (KSE) except for banks. The government, however, controls what companies are publicly traded. In March 2001, the Foreign Direct Investment Law was passed, allowing up to 100% ownership of a company operating in Kuwait, although with the disincentive that the profits of the foreign company would be subject to a 55% tax. In July 2001, the government announced a five-year privatization program.

#### 40 SOCIAL DEVELOPMENT

Kuwait has a widespread system of social welfare on a paternalistic basis, financed by government oil revenues. It offers welfare services for the poor, provides free medical service and education to all Kuwaiti citizens, and spends heavily for waterworks, public gardens, and other public facilities. Social insurance legislation enacted in 1976 provides for old age, disability, and survivor pensions, for which the worker pays 5% of earnings and the employer pays 10% of payroll. In 1999, retirement benefits ranged from 65% to 95% of earnings, depending upon the length of employment. Large subsidies for electricity, gasoline, and rice hold prices below market rates but contribute to the government's annual deficit.

Women are denied equal rights and legal protection under Kuwaiti law, and their testimony in a court of law is not considered to be equal to that of men. Women must first obtain their husband's permission before applying for a passport. Kuwaiti women married to foreign men suffer legal discrimination, are not entitled to government housing subsidies and are required to pay a residency fee. Female political parties are banned, and women are not allowed to vote or seek national elective office. However, 33% of women of working age are employed, and some occupy professional positions. The government is actively working to segregate all classrooms by gender. Women (including foreign women) who wear Western clothing are often subject to harassment. Domestic abuse is common. Rape and abuse of foreign domestic workers is widespread.

Bedouin minorities face considerable legal discrimination. They are not entitled to citizenship, and are unable to work or enroll their children in schools.

#### 41 HEALTH

Kuwait has a highly advanced public health service, which is extended to all Kuwaiti residents, regardless of citizenship. In 1993, 100% of the population had access to health care services. As of 1999, total health care expenditure was estimated at 3.3% of GDP. In 1999, 100% of the urban population had access to safe water and 100% of the urban population had adequate sanitation. In 1994, there were 16 public hospitals and sanatoriums (with 4,271 beds) and 70 clinics and other health centers. Medical personnel included 2,717 doctors and 399 dentists in 1994. As of 1999, there were an estimated 1.9 physicians and 2.8 hospital beds per 1,000 people.

The incidence of typhoid fever and most infectious diseases is comparatively low; however, influenza is common and measles has resulted in a high fatality rate among children up to age five.

Between 1990 and 1994, immunization rates for children up to one year of age were as follows: tuberculosis, 93%; diphtheria, pertussis, and tetanus, 98%; polio, 98%; and measles, 97%. As of 1999, the rates for DPT and measles were 94% and 95%, respectively. Common diseases were malaria (1,379 new cases in 1993) and measles (432 new cases in the same year).

Life expectancy in 2000 was 77 years and infant mortality was estimated at 9 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 21.8 and 2.5 per 1,000 people. The total fertility rate in 2000 was 2.7 children per woman during childbearing years. In 1990 and 1991, there were approximately 200,000 deaths attributed to the war between Kuwait and Iraq. In 1999 the HIV prevalence was 0.12 per 100 adults.

#### 42 HOUSING

For centuries, housing in Kuwait consisted of small cottages, mud huts, and a few larger dwellings built of coral and plastered with cement and limestone. Improved housing for the general population has been a main government objective. The National Housing Authority built about 50,000 dwelling units in 1977–85. Between 1989 and 1994, 25,213 applications were presented for the housing distribution program. According to the 1995 census, there were 255,477 households in Kuwait. The total number of dwellings that year was 251,682, of which 234,153 were private and 17,529 were collective dwellings. Including vacant dwellings and those under construction, the total number was 287,574 in 1995. About 50% of all housing units were apartments, 19% were villas, 15% were traditional dwellings, 10% were annexes, and 4% were shacks and other marginal dwellings. In 2000/2001 there were 8,875 government housing projects and 3,118 new dwellings constructed.

#### 43 EDUCATION

Kuwait offers its citizens free education, including free food, clothing, books, stationery, and transportation, from kindergarten through the fourth year of college. Most expatriates are not eligible for free education and must register their children at a private school. The Ministry of Education sets tuition levels for private schools. In 1998, 142,308 students were enrolled in 286 primary schools, with 10,798 teachers. Student-to-teacher ratio stood at 13 to 1. In the same year, secondary schools had 224,293 students and 21,187 teachers. The pupil-teacher ratio at the primary level was 14 to 1 in 1999. In the same year, 66% of primary-school-age children were enrolled in school, while an estimated 50% of those eligible attended secondary school. Schools below university level are segregated by sex.

Kuwait University was opened in 1966 with 866 students and in 1995 had a student enrollment of 12,712 and a graduating class of 1,880. Kuwaiti nationals composed 92% of the student body. Kuwaiti students who complete their secondary-school science courses in the upper 80% of their class and arts courses in the upper 70% are eligible to study abroad at government expense. Universities and equivalent institutions had a total of 29,509 students and 1,691 teachers in 1997. The government has adopted a program to wipe out illiteracy by opening adult education centers. For the year 2000, adult illiteracy rates were estimated at 17.7% (males, 15.7%; females, 15.7%). As of 1999, public expenditure on education was estimated at 6.5% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The National Library of Kuwait has over 150,000 volumes, 90% of them in Arabic; it has established 22 branches throughout the country. The Kuwait University library system has over 294,000 volumes. Other schools and the oil companies maintain special libraries. In 2000, Kuwait had five museums. The Kuwait Museum displays ancient Kuwaiti artifacts (recovered from excavations on Faylakah Island), as well as exhibits concerning

local plant, bird, and animal life. The Educational Science in Safat Museum was established in 1972 and features sections on natural history, space, oil, health, and meteorology.

#### 45 MEDIA

The government administers telephone, television, radio, postal, and telegraph services. By 1994 damage to the telecommunications infrastructure from the Gulf War had been repaired and operations returned to normal. In 1997, 412,000 telephones were operated from a fully automatic exchange; a cellular telephone system also operates throughout Kuwait and had about 210,000 subscribers in 1997.

Kuwait Television is government-controlled and has offered color broadcasts since 1974; it broadcasts over three channels. Radio Kuwait produces programs in English, Urdu, Persian, and Arabic. In 1998, there were 6 AM and 11 FM radio stations and 13 television stations. In 2000, there were 624 radios and 486 television sets for every 1,000 people. In 2001, there were 165,000 Internet subscribers served by three service providers.

As of 2002, Kuwait had eight daily newspapers. Major Arabic dailies (with estimated 2002 circulation), include *Al-Anbaa* (*The News*, 106,830), *Al-Rai al-'Amm* (*Public Opinion*, 86,900), *Al Jameheer* (83,000), *Al-Qabas* (*Firebrand*, 79,700), *Al-Seyassa* (*Policy*, 70,000), and *Al-Watan* (*The Homeland*, 59,940). English-language dailies include the *Arab Times* (41,920) and *Kuwait Times* (28,000). The popular monthly magazine *Al-'Arabi* (350,000 in 1995), similar to the *Reader's Digest*, is widely read in Kuwait.

The constitution provides for freedom of speech and the press, and with a few exceptions, citizens are said to freely criticize the government in all media. The government ended pre-publication censorship in 1992. The government does not censor foreign journalists and allows them open access to the country.

#### 46 ORGANIZATIONS

The Ministry of Social Affairs and Labor encourages and supports cultural and recreational organizations and sponsors theatrical activities for youth. The Kuwait National Commission for Education, Science and Culture is a primary organization for the advancement of science, art, and culture. The multinational Islamic Organization for Medical Sciences and the Arab Center for Medical Literature are in Kuwait. National youth organizations include the National Union of Kuwaiti Students and the Boy Scouts and Girl Scouts Associations. There is a chamber of commerce and industry in the capital. The Red Crescent Society is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

By the second anniversary of the Iraqi invasion, many of the physical scars of war and occupation had already been erased,

and the government was well on its way to restoring the country's extensive prewar accommodations and amenities, although hotel prices have risen steeply since the war. Except for nationals of the other Gulf states, visitors must obtain visas in advance from Kuwaiti embassies or consulates.

In 2000, there were 1,988 hotel rooms and a total of 2,857 beds. That year there were 1,944,233 foreign visitor arrivals in Kuwait and tourism receipts reached \$198 million. In 2001, the US Department of State estimated that the daily expenses for a stay in Kuwait City were about \$339.

#### 48 FAMOUS KUWAITIS

During the reign of Emir Sir 'Abdallah as-Salim as-Sabah (1870–1965), Kuwait attained a prominent position among the great oil-producing nations of the world, and the state adopted a social welfare program founded on a unique patriarchal system; the emir was revered as a man of simplicity, devotion, and deep concern for his people. His successors as emir have been Sabah as-Salim as-Sabah (1913–77), from 1965 to 1977; and Jabir al-Ahmad al-Sabah (b. 1926).

#### 49 DEPENDENCIES

Kuwait has no territories or colonies.

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# KYRGYZSTAN

Kyrgyz Republic  
*Kyrgyz Respublikasy*

**CAPITAL:** Bishkek

**FLAG:** Red field with a yellow sun in the center; in the center of the sun is a red ring crossed by two sets of three lines, a stylized representation of the vent in a Kyrgyz yurt.

**ANTHEM:** *Kyrgyz National Anthem.*

**MONETARY UNIT:** The som was established in May 1993; som1 = \$0.0228 (or \$1 = som43.85) as of May 2003.

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

**HOLIDAYS:** Constitution Day, 5 May; Independence Day, 31 August; National Day, 2 December.

**TIME:** 5 PM = noon GMT.

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

Kyrgyzstan is located in southern Asia, between China and Kazakhstan. Comparatively, it is slightly smaller than the state of South Dakota with a total area of 198,500 sq km (76,641 sq mi). Kyrgyzstan shares boundaries with Kazakhstan on the N, China on the E, Tajikistan on the S, Uzbekistan on the W. The country's boundary length totals 3,878 km (2,410 mi), and its capital city, Bishkek is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Kyrgyzstan features the peaks of Tien Shan, which rise to over 7,000 m (23,000 ft), and associated valleys and basins which encompass the entire nation. About 90% of Kyrgyzstan has an elevation exceeding 1,500 m (4,900 ft). Slightly over 5% of Kyrgyzstan's land is under irrigation.

## <sup>3</sup>CLIMATE

The country's climate is continental to polar in the Tien Shan Mountains. In the Fergana Valley the average temperature in July is 27°C (81°F). In January, the coldest temperatures are in the mountain valleys, with recorded lows below -30°C (-22°F). The climate is temperate in the foothill regions of the north.

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

The country's flora and fauna is similar to Tajikistan, with wildflowers in the valleys and yak and snow leopards in the mountains.

## <sup>5</sup>ENVIRONMENT

Among Kyrgyzstan's most significant environmental issues are water pollution and soil salinity resulting from improper irrigation methods. The pollution of the nation's water causes health problems for 25% of its people, many of whom draw water directly from contaminated wells and streams. Only 66% of the nation's rural dwellers have a publicly regulated water supply. As of 2001, 3.5% of Kyrgyzstan's total land area is protected. In the same year, six mammal species and five species of birds were listed as threatened, as were seven plant species. Threatened animal species include the great bustard, European bison, snow leopard, field adder, and tiger.

## <sup>6</sup>POPULATION

The population of Kyrgyzstan in 2003 was estimated by the United Nations at 5,138,000, which placed it as number 109 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 35% 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 1.40%, with the projected population for the year 2015 at 5,949,000. The population density in 2002 was 25 per sq km (65 per sq mi).

It was estimated by the Population Reference Bureau that 33% of the population lived in urban areas in 2001. The capital city, Bishkek, had a population of 619,000 in that year. The second largest city was Osh, with a population of 218,300. According to the United Nations, the urban population growth rate for 2000-2005 was 0.9%.

## <sup>7</sup>MIGRATION

As of 1999, the total number of refugees was estimated between 40,000 and 50,000 registered and unregistered (1% of the total population). There were about 13,000 officially registered refugees, mainly from Tajikistan, and about 700 from Afghanistan. The great majority of Tajik refugees were of ethnic Kyrgyz origin and desire to stay in Kyrgyzstan permanently. The government was working with UNHCR to implement an integration package to assist Tajik refugees in their transition to Kyrgyz citizenship. Between 1989-95, 296,000 Russians, 39,000 Ukrainians, and 3,000 Belarussians all departed from Kyrgyzstan. Also, 46,000 Germans (formerly deported under Stalin during World War II from Soviet and Volga regions) returned to Germany. In 2000, the net migration rate was -0.5 migrants per 1,000 population, down from -12.5 in 1990. In 2000 there were 572,000 migrants, including 10,600 refugees. The government viewed the immigration level as too high, but the emigration level as satisfactory.

## <sup>8</sup>ETHNIC GROUPS

According to a 1999 census, about 65% of the population were Kyrgyz, about 14% were Uzbeks, 13% were Russians, 1%

Dungan (ethnic Chinese Muslims), 1% Uighur, 1% Tatar, and 0.4% German. About 420,000 ethnic Kyrgyz reside elsewhere in the former Soviet Union and 170,000 in China. Kyrgyz speak a Turkic language and most are Sunni Muslims. There are major ethnic and clan-based cleavages, including north-south clan and regional tensions that threaten fragmentation. According to some reports, 10% or more of Russians left Kyrgyzstan during 1991 because of ethnic tensions. Ethnic Germans, deported to Kyrgyzstan by Stalin during World War II, are also leaving Kyrgyzstan. In June 1990, in the Osh region on the eastern edge of the fertile Fergana Valley, a major ethnic conflict broke out between Kyrgyz and Uzbek inhabitants over land distribution. Approximately 250 people died in what has been termed “the most explosive region of Central Asia,” because of its mixed population of Uzbeks and Kyrgyz, poverty, and high unemployment. Periodic clashes also occur between Kyrgyz and Tajiks along the border with Tajikistan over water resources. Beefed-up Kyrgyz security forces were placed in Osh and Alais regions in early 1993 to prevent spillover from fighting going on between Tajik ex-communists and oppositionists in the mountains of northern Tajikistan and to halt the inflow of Tajik refugees.

## 9 LANGUAGES

A Turkic tongue, Kyrgyz is the official language. Until 1926, the Kyrgyz and Kazakh languages were not officially recognized as two distinct languages. Kyrgyz orthography was formally organized in 1923 and was modeled after the northern dialects using Arabic script. Afterwards, Roman letters were used until 1940, when the Cyrillic alphabet was mandated by the Soviet government, with three special additional characters. Since independence, there has been discussion about switching back to the Roman alphabet.

Although the Kyrgyz language is the traditional language, most of Kyrgyzstan's population also speaks Russian, the language of business and commerce. In March 1996, the Kyrgyzstani legislature amended the constitution to make Russian an official language, along with Kyrgyz, in territories and work places where Russian-speaking citizens predominate.

## 10 RELIGIONS

Some 80% of the population are Muslim, mostly Sunni of the Hanafi persuasion. An estimated 20% are Russian Orthodox, and 5% practice various other religions. Although it is not known how many Roman Catholics live in Kyrgyzstan, diplomatic relations with the Vatican were opened in 1992. Together, Jews, Buddhists, and Catholics make up about 3% of the population. There are about 151 registered Protestant churches in the country.

## 11 TRANSPORTATION

As of 2002, a single east-west rail line of 370 km (230 mi) went from Issyk-kul' across the Chuskaya region into Kazakhstan. There were some 30,300 km (18,828 mi) of highways, of which 22,600 km (14,044 mi) were paved in 2002. Irregular service with public transportation occurs frequently. As a landlocked nation, water transportation is of minor importance with only 600 km (372 mi) of waterways as of 1990. However, inland travel is possible on several east-west rivers. Kyrgyzstan has 50 airports and airfields, of which 4 have paved runways, as of 2001. The principal airport is Manas, located at Bishkek. In 2001, 192,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The area of present-day Kyrgyzstan contains evidence of human habitation from the time of the Lower Paleolithic on, approximately 300,000 years ago. Archeologists suggest that two

types of economies developed in the territory—farming and pastoral nomadism. By the 7th century BC nomadism had become predominant, and the area was controlled by various tribal alliances. In the north the Saki (7th–3rd centuries BC) were succeeded by the Usuni (2nd century BC–5th century AD); in the south the Parkan state (2nd–1st centuries BC) was replaced by the Kushani kingdom (1st–4th century AD). The ethnic identity of those peoples is the subject of much debate, but they were not Turkic. From the 6th century on, various Turkic tribes began to push westward, eventually settling most of Central Asia, including Kyrgyzstan. Much of present Kyrgyzstan was united by the 7th century as part of the West Turkic Kaganate, and replaced in the 8th century by the Turgash, who in turn were conquered by the Karluk, who originated in the Altai region further north.

When the present-day Kyrgyz first came to this territory is the subject of much debate. References to tribes of that name living in the Altai occur in the 10th century, but another people with the same name who lived along the Enisei River are first mentioned in records from the 2nd century BC. The Enisei Kyrgyz formed the Kyrgyz Kaganate in about AD 650, which survived until defeat by Genghiz Khan in 1209. Kyrgyz tradition prefers to see its origin in that state, but ethnographers and archeologists view the claim with considerable skepticism.

Evidence suggests instead that the present-day Kyrgyz are an amalgamation of various peoples, as existing tribes incorporated themselves into fresh waves of conquerors. The territory was part of the Karakhanid state from about 950–1150, during which the urban population was actively involved in trade and manufacturing along the Silk Road. Conversion to Islam also began in this period.

Genghiz Khan's Mongols conquered the area in the 13th century, destroying most of the Karakhanid culture and introducing large numbers of new peoples into the area, of Turkic, Mongol, and Tibetan stock. The resulting mix of tribes was almost certainly the basis for the present-day Kyrgyz people, who retain much of the memory of those origins in the orally preserved genealogies of their 40 clans and tribes. The present Kyrgyzstan flag includes the depiction of a sun with one ray for each tribe. The Kyrgyz follow Mongol practice of dividing their people into left (*ong*) and right (*sol*) “wings,” said to reflect either the deployment of troops in military formation, or the tribe's original place of habitation. There is also a third group, the *ichkilik*, that seems to include parts of the Kyrgyz identity.

From the 15th century until the 17th century the Kyrgyz tribes were part of the larger delineation of Central Asian history, which distinguished agricultural sedents from pastoral nomads. The appearance of the same tribal names among Kazakhs, Kyrgyz, and Uzbeks suggests how the people of this territory formed a series of tribal alliances, rather than a true state.

In the 18th century the Kyrgyz began to come under pressure from Mongol tribes farther east. This prompted some of the northern tribes to send delegations to the Russians, who had pushed into Siberia in the 17th century, and who were beginning to take what is now northern Kazakhstan under its control. The Russians made no distinction between the Kazakhs and Kyrgyz, calling both Kyrgyz. The southern Kyrgyz, however, were conquered by the Kokand Khanate, established in the late 18th century, separating them from the northern Kyrgyz. This split between south and north continues to the present day in Kyrgyz life.

Russian expansion into what it called the Steppe included Kyrgyzstan. Most of northern Kyrgyzstan was incorporated into the empire by 1863; the south followed in 1876, when Russia destroyed the Kokand Khanate. Administratively, present-day Kyrgyzstan was split among four guberniias. Beginning in the 1890s Russia settled Russian and other European farmers into the fertile river valleys of the north, forcing Kyrgyz nomads higher into the mountains.



LOCATION: 41°30' N; 75°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,878 kilometers (2,410 miles); China, 858 kilometers (533.2 miles); Tajikistan, 870 kilometers (541 miles); Uzbekistan, 1,099 kilometers (683 miles); Kazakhstan, 1,051 kilometers (653 miles).

By 1916, Russia's policies of livestock requisition and land use had left the Kyrgyz badly impoverished. When Russia attempted to issue a draft call-up for Central Asian males, including the Kyrgyz, widespread fighting broke out all across the territory. The uprisings were suppressed, with great loss of life; population in the northern part dropped as much as 40%. Since independence in 1991, the state has commemorated the 1916 uprising as a genocide.

Hostility to the tsars meant that there was some support for the Bolsheviks, at least until it became clear that Lenin was not going to encourage the development of national states. Resistance to the Russians continued sporadically until the mid-1920s, in what Russian historians have labeled the Basmachi Rebellion.

As Bolshevik power was consolidated, Kyrgyzstan was first made an autonomous oblast (political unit) of the Russian Federation in 1924; it was upgraded in 1926 to an autonomous republic, but still within Russia. (At that time Russia was one of the Soviet Republics.) Kyrgyzstan did not become a full Soviet Republic until 1936.

The republic was regarded as one of the least developed of the Soviet states, politically and economically. Thus, it came as a great surprise when, on 28 October 1990, Kyrgyzstan became the first Soviet republic to select its own leader. The Kyrgyzstan legislature refused to ratify Communist Party leader Absamat Masaliyev's bid to become the republic's president, and elected instead Askar Akayev, president of the republic's Academy of Science. Akayev and his supporters began asserting Kyrgyz nationalism and wresting political and economic control over the republic from the Soviet Communist Party. These efforts were briefly interrupted by an attempted coup in Moscow by

Communist Party hard-liners in August 1991. Akayev bravely condemned the coup and, after it fizzled, on 30 August 1991 he severed ties with the Communist Party and Kyrgyzstan declared its independence. On 12 October 1991, Akayev's presidency was confirmed by direct popular election.

A constitution was adopted on 5 May 1993. An economic and political crisis led to the resignation of the first government in December 1993, but Akayev's presidency was reaffirmed by a popular referendum of support conducted on 30 January 1994. Over 95% of registered voters participated in the referendum; 97% of those who voted supported President Akayev.

In September 1995, Akayev's supporters submitted a petition signed by 1.2 million (52% of the voting age population) urging the legislature to approve a referendum extending Akayev's term to the year 2001. After contentious debate, the legislature rejected holding a referendum, and Akayev instead announced that a presidential election would be held on 24 December 1995. Thirteen candidates were registered, but ten were disqualified, leaving Akayev, Masaliyev, and former speaker Medetken Sherimkulov. Akayev won reelection to a five year term, receiving 72% of about 1.9 million votes in a race deemed generally "free and fair" by international observers, though questions were raised about the disqualifications. In July 1998, Akayev hailed a Constitutional Court decision permitting him to run for a third term in the year 2000. He was reelected president on 29 October 2000, with 74% of the vote in an election marred by serious irregularities. Opposition activity prior to the election had been severely curtailed.

Severely shaking Kyrgyzstan's stability, several hundred Islamic extremists and other guerrillas entered Kyrgyzstan from

Tajikistan in July–August 1999. The guerrillas seized hostages, including four Japanese geologists, and several Kyrgyz villages, stating that they would cease hostilities if Kyrgyzstan provided a safe haven for refugees and would release hostages if Uzbekistan released jailed extremists. The guerrillas were rumored to be seeking to create an Islamic state in south Kyrgyzstan as a springboard for a jihad in Uzbekistan. A Kyrgyz Security Council member in October 1999 alleged that the guerrillas were trying to seize the major drug trafficking route in southern Kyrgyzstan. Kyrgyzstan called out reservists and admitted that its military was unprepared for combat. Kyrgyzstan received air support from Uzbekistan and Kazakhstan, but protested Uzbek bombing of a Kyrgyz village. The Kyrgyz defense minister on 18 October 1999 announced success in forcing virtually all guerrillas back into Tajikistan.

The United States established a major airbase near Bishkek in December 2001 for military and humanitarian uses during its campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces there. Kyrgyzstan and the United States have established closer political and security ties since 11 September 2001. At US prompting, the IMF reached agreement with Kyrgyzstan on a \$93 million loan in December 2001. Since 11 September, all radical Islamic groups in the Central Asian nations have been linked with international terrorism. Both the Hizb-ut-Tahrir (“Freedom Party”) and the Islamic Movement of Uzbekistan (IMU), two radical Islamic organizations looking to establish an Islamic state in Central Asia, have a strong presence in the country. The IMU, expelled from its own country, collaborated with the Taliban and al-Qaeda and led armed incursions into Kyrgyzstan. Following the anti-terrorist operations led by the United States after 11 September, all major units of the IMU were destroyed.

In January 2002, Legislative Assembly member and opposition leader Azimbek Beknazarov was detained on charges which supporters said were politically motivated and linked to his criticism of the government’s planned transfer of disputed land to China and Kazakhstan. In February, Sherali Azarkulov, a prominent human rights activist, died while on a hunger strike to protest Beknazarov’s detention. In March, five people were killed in the southern Aksy rayon in clashes with police during a protest demanding Beknazarov’s release, and in May, the government resigned after a state commission ruled that senior officials were to blame for the deaths of the protestors. Beknazarov was subsequently freed, after being given a one-year suspended sentence for abuse of office. A rally in June called for Akayev’s resignation, increasing fears of political instability and civil war. Large protests and arrests continued throughout the year. In January 2003, Akayev announced a referendum would be held on his presidency and on amendments to the constitution to “improve democracy.” On 2 February, 76.6% of Kyrgyz citizens supported the amendments in the referendum, and 78.7% of voters determined Akayev should remain in office until his term expired in December 2005.

In October 2002, Kyrgyzstan and China staged their first joint military exercises, aiming to coordinate their response to terrorism.

### 13 GOVERNMENT

When Kyrgyzstan was still a Soviet republic, the legislature elected Askar Akayev president. Under his leadership, Kyrgyzstan declared independence and drafted a new constitution, ratified 5 May 1993. This constitution established a democratic presidential system with separation of powers and expansive human rights guarantees. In early September 1994, Akayev’s supporters in the legislature—a slim majority of 168 out of 323 sitting deputies, most of whom were local administrators—boycotted the last session of the legislature before the expiration of its mandate in February 1995. This boycott prevented

formation of a quorum, causing the dissolution of the legislature. Oppositionists alleged that the timing of the dissolution was aimed to squelch a legislative investigation into corruption in the government, and to open the way for Akayev to create a more malleable legislature. Akayev took over legislative powers, and decreed that legislative elections would be held by the end of the year. He also decreed that a referendum would be held in October 1995 to approve amendments to the constitution, including provisions revamping the legislative system to weaken it relative to the presidency. He argued that legislative and other provisions of the May 1993 constitution were too “idealistic” since the “people are not prepared for democracy,” and a “transitional period” was needed. Although the amendment process, like the dissolution of the legislature, contravened the constitution, the referendum questions were approved by over 80% of the voters.

Under the 1996 amendments, the president was given expanded powers to veto legislation, dissolve the legislature, and appoint all ministers (except the prime minister) without legislative confirmation, while making legislative impeachment more difficult. The legislature confirms the prime minister and high judges. Akayev spearheaded a referendum on 10 February 1996 to further alter the constitution. The amendments specify that Kyrgyzstan, or the Kyrgyz Republic, will be a secular, unitary state. It creates three branches of government: executive, legislative, and judicial. The Jogorku Kenesh (parliament or supreme council) has legislative responsibilities. The Jogorku Kenesh is made up of two houses—the 35-member legislative assembly and the 70-member assembly of people’s representatives. The legislative assembly is responsible for day-to-day operations of the legislature, such as interpreting laws and ratifying international treaties. The legislative assembly also has the power to impeach the president. The assembly of the people’s representatives meets periodically during the year to consider budget, tax, and appointment issues.

The executive branch is comprised of the cabinet of ministers, or ministries, appointed by the president and approved by the parliament. The head of the cabinet is the prime minister, also appointed by the president and confirmed by the parliament.

The president is to be elected once every five years, for no more than two terms, from among those citizens who are between 35 and 65 years of age, who have lived at least 15 years in the republic, and who are fluent in the state language, which is Kyrgyz.

There is no vice president. The usual functions of vice president, including the duty to replace the president in case of death or incapacity, are borne by the speaker of the parliament, who is elected from among the membership of the parliament.

Judges are chosen by the president, subject to parliamentary affirmation. Potential judges must be citizens between 35 and 65 years who have legal training and legal experience of at least ten years. The length of their service is unlimited, but can be terminated by the parliament.

In theory, the constitution provides a number of basic guarantees of human freedom, including freedom of religion, of the press and other forms of media, of movement about the republic and place of dwelling, of association, and unarmed assembly. It guarantees the privacy of post and other forms of communication, and guarantees private property. In terms of social benefits, the constitution guarantees pensions, unemployment compensation, legal representation, medical treatment, and free basic education.

Despite restrictions on its powers, in 1997–98, the legislature showed increasing signs of independence from executive power. Moving to further weaken it, Akayev spearheaded another referendum on 17 October 1998 to amend the constitution. Approved by 91.14% of voters, the amendments sharply restricted the legislature’s influence over bills involving the budget or other expenditures, limited a legislator’s immunity from

removal and prosecution, increased the size of the legislative assembly to 60, and decreased the size of the assembly of people's representatives to 45. It also provided for private land ownership and upheld freedom of the press. The legislature has acted in subordination to the executive branch, but has at times asserted itself by overriding presidential vetoes. In November 1999, the assembly of people's representatives rejected the government's budget for 2000, calling for added social and defense spending.

Kyrgyzstan's 20 February 2000 legislative election (with a runoff on 12 March) reflected the erosion of Kyrgyzstan's earlier signal progress in Central Asian democratization, according to the US State Department. Under new laws, fifteen seats in the upper chamber were set aside for party list voting. The Central Electoral Commission ruled that sixteen parties out of 27 legally registered were disqualified from fielding party list candidates, though it urged that such candidates could instead seek single-member seats. The major opposition Democratic Movement of Kyrgyzstan-Dignity Party bloc was initially registered but then decertified. The Organization for Security and Cooperation in Europe (OSCE) on 8 February criticized the de-certification as a narrow interpretation of the law and as restricting popular choice in the election. In all, 545 candidates were finally permitted to run for 105 seats. Six parties received over 5% of the vote, giving them seats: the Party of Communists (5 seats), Union of Democratic Forces (4), Democratic Party of Women (2), Party of Veterans (2), My Country (1), and Ata-Meken (1). Only Ata-Meken and the Communist Party are clear opposition parties. Only three constituency races were decided in the first round. In the second round on 12 March, 84 members were elected in a confusing vote. Prominent opposition politician Daniyar Usenov was disqualified after the first round, although he actually had won, according to the OSCE. Similarly, opposition Dignity Party head Feliks Kulov received more votes than his opponents in the first round, but was heavily defeated in the second through apparent legerdemain, according to the OSCE. After the second round, the opposition Democratic Movement, Dignity Party, and the People's Party protested the results.

About 120 OSCE observers and 2,000 local observers monitored the election. In the first round, OSCE monitors pointed to problems such as the disqualification of prominent opposition parties and the pro-government composition of electoral boards, and in the second round criticized continued government harassment of opposition candidates, politically motivated court decisions disqualifying some opposition candidates, and irregularities in vote-counting. US State Department spokesman James Foley on 14 March stressed that "the United States is disappointed in the conduct of the 2000 parliamentary election in Kyrgyzstan," which "amounted to a clear setback for the democratic process." On 23 March, he criticized Kyrgyz authorities for forcibly suppressing a peaceable demonstration and for arresting Kulov the day before on vague charges of committing crimes several years ago. Kulov was acquitted of charges of abuse of office in August, but was rearrested in January 2001. That July, new charges of embezzlement were brought against him, and in May 2002, he was sentenced to 10 years' imprisonment.

On 29 October 2000, Akayev was reelected president with 74% of the vote in an election marred by serious irregularities. Throughout 2001, the government continued to harass the opposition, independent media, and human rights defenders. Police used force to disperse protesters and arrested them throughout 2001 and 2002.

On 13 January 2003, Akayev announced a referendum would be held on 2 February for amendments to the constitution, including the abolition of the two-chamber parliament in favor of a single chamber, the abolition of party-list voting for parliament, and immunity from prosecution of former presidents and their families. Voters could not vote on the changes individually, but

were to approve or reject them wholesale. They also had to indicate whether or not they wanted Akayev to remain in office until his term expired in December 2005. 76.6% of Kyrgyz citizens supported the amendments in the referendum, and 78.7% of voters determined Akayev should remain in office. Turnout was over 86%. The opposition, which called for a boycott of the vote and sent observers to monitor the election, said that turnout had been less than 40%, failing to reach the 50% threshold for the referendum to be valid.

## 14 POLITICAL PARTIES

There is no formal ruling party. Over two dozen parties are legally registered, though all are small and some are inactive. Fewer than one-half of legislators claim party affiliation. Pro-Akayev parties include the Birimdik (Unity) Party, and the Adilet (Justice) Party (formed by writer Chingiz Aitmatov in October 1999). The main "constructive opposition" party is the People's Party. Among other parties, the Party of Communists (PCK; headed by Masaliyev) calls for reunification with Russia. The Erkin (Free) Kyrgyzstan Progressive Democratic Party calls for elevating the rights of ethnic Kyrgyz. Democratic Movement calls for democratic socialism. Erkin Kyrgyzstan, Asaba, the Social Democratic Party, Unity, Democratic Movement, My Country, and others decided in July 1999 to form a bloc to contest the legislative elections. The Dignity Party, headed by Felix Kulov (former vice president, security minister, and Bishkek mayor) was formed in August 1999. The electoral code forbade parties from taking part in the February 2000 legislative races unless they were more than one year old, eliminating eight new parties. The Central Electoral Commission in late 1999 also declared the People's, Citizens of Bishkek, Labor-Popular, and the People of Manas Parties disqualified on technicalities from taking part in the race. Religious parties are banned. Regional interests are important in the political process. The Kyrgyz leadership reportedly favors interests of the Chu region. Ten major opposition parties formed a broad coalition, the People's Patriotic Movement, in April 2001. The ability of this opposition coalition to provide an effective counter-weight to President Akayev and his supporters remains unproven. Feliks Kulov was sentenced to 10 years' imprisonment in May 2002 on embezzlement charges.

## 15 LOCAL GOVERNMENT

The republic is divided into seven administrative regions, plus the capital city of Bishkek. In addition, there are rayons, or districts. Each oblast and rayon has a local administration consisting of a governor, and a local assembly. According to a presidential decree of March 1996, regional governors are appointed by the president to four-year terms, and are responsible for making sure that the local executive and legislative branches cooperate in carrying out state decisions, for upholding law and order, for ensuring citizens' rights and freedoms, for obtaining funds to maintain local government and public property, for adhering to state budget strictures, for ensuring that taxes are collected, for making sure that local pensions and state wages are paid, and for generally ensuring the local welfare. Although in theory answering to the president, in practice some of the governors have become powerful spokesmen for regional interests, and run their districts with considerable autonomy. In October 1999, the first elections of municipal, *rayon* (district) and *oblast* (region) assemblies or *keneshs* took place. A new electoral law called for the candidate who gained a simple majority of votes to be declared the winner, introduced multi-seat constituencies, and dictated that only a Kyrgyz citizen who has lived in a constituency for no less than two years could become an assembly deputy.

## 16 JUDICIAL SYSTEM

The 1993 constitution declares the independence of the judiciary from the other branches of government. Thus far, however, the courts remain under the supervision of the Ministry of Justice and continue to operate mostly under Soviet-era laws and procedures. Some judicial reforms are being introduced, such as a separate judicial budget and more judicial training. There are three levels of criminal courts: local courts, which handle petty crimes; provincial courts, which consider most categories of crime, and the appellate supreme court. Traditional elders' courts may also handle petty crimes in rural areas. Defendants in elders' courts may appeal to the local administrative court.

A state prosecutor, or procurator, remains responsible for criminal arrests, investigations, and presentations before a panel consisting of a judge and two people's assessors (pensioners or members of labor collectives). Since 1990 there has been a right to have legal counsel in criminal cases. In 1996, the constitutional court ruled that only the defense has the right of appeal. Counteracting these restrictions on prosecutorial power, the law continues to allow judges to remand a case to the procurator for further investigation, rather than to declare the defendant guilty or innocent.

Judges hold varying terms of office. Constitutional court judges are appointed to fifteen-year terms, supreme court judges to ten-year terms, and first-term local court judges to three-year terms by recommendation of the president and confirmation by the Jogorku Kenesh (legislature). The 1993 constitution instituted a Western concept of judicial review by a constitutional court which did not exist under the former Soviet regime. Formed in 1993, the constitutional court reviews legislation and administrative acts for consistency with the constitution. It also considers cases on appeal involving individual rights and liberties of citizens. Constitutional court decisions are final. There is also a higher court of arbitration and a system of lower courts for economic cases.

## 17 ARMED FORCES

Active armed forces were estimated at 10,900 personnel in 2002, with 57,000 reserves. The army had 8,500 personnel and was equipped with 233 main battle tanks. An air force of 2,400 operates 52 combat aircraft and nine attack helicopters. There is also a paramilitary force of 5,000 border guards. Kyrgyzstan provides two observers in Sierra Leone. The United States, France, Spain, and South Korea provide support to Kyrgyzstan through Operation Enduring Freedom. Defense expenditures were estimated at \$19.2 million in 2001 or 1.4% of GDP.

## 18 INTERNATIONAL COOPERATION

Kyrgyzstan was admitted to the UN on 2 March 1992. The country is a member of the CIS, EBRD, ECE, ECO, ESCAP, IFC, IMF, UNCTAD, UNESCO, WTO, and the World Bank. As a member of the CIS, Kyrgyzstan has formal diplomatic relations with all the republics of the former Soviet Union.

The United States and the EU nations, along with many others, have diplomatic relations with the country. Kyrgyzstan has especially good relations with Germany, neighboring Central Asian states, and China.

In June 2001, leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan met in China to launch the Shanghai Cooperation Organisation (SCO) and sign an agreement to fight ethnic and religious militancy while promoting trade.

## 19 ECONOMY

Kyrgyzstan is among the poorest of the post-Soviet countries. Although coal, gold, mercury, and uranium deposits are considerable, the country boasts few of the oil and gas reserves

that promise a badly needed economic windfall to other Central Asian republics.

Under the presidency of Askar Akayev, the process for economic restructuring toward a free market orientation outpaced that of most other post-Soviet republics, yet the transition has been an extremely difficult one. Dissolution of the state ordering system in Kyrgyzstan and its reduction in other post-Soviet republics have disrupted the traditional supply channels and effective markets for the country's industries, severely affecting overall economic performance.

As of 1995, 59.5% of enterprises had been privatized or converted to joint stock companies; privatized firms accounted for more than half the GDP that year. Some 50% of industrial firms, 75% of agriculture, and 90% of retail trade were privatized by 1995. By 1999, most of the state-owned enterprises had been sold.

The Kyrgyz government instituted tight monetary and fiscal policies in 1994 that reduced inflation from 23% per month in 1993 to 5.4% in 1994 and further, to 2.3% in 1995. Inflation was up again to 18% in 1998. Gross domestic product grew by an average annual rate of 7% from 1987 to 1998, with a 1998 growth rate of 1.8%.

A reform of the government structure in early 1992 consolidated 41 ministries into 13 ministries and 7 commissions. As part of this change, the Ministry of Economy and Finance was established to assume the fiscal and economic planning duties previously carried out separately by the Ministry of Finance and the State Planning Committee. In May 1993, Kyrgyzstan was the first country of the CIS countries to announce the introduction of its own currency, the som. Although taken in order to stabilize the national economy in face of continuing turmoil in the ruble zone, this step posed a large setback to previous negotiations for a single monetary union with other post-Soviet republics. The som has been remarkably stable since 1994, and is considered the most stable currency in central Asia, although the government still faces excessive debt.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Kyrgyzstan's gross domestic product (GDP) was estimated at \$13.5 billion. The per capita GDP was estimated at \$2,800. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2001 was 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 38% of GDP, industry 27%, and services 35%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$43 million or about \$1 per capita and accounted for approximately 0.2% of GDP. Worker remittances in 2001 totaled \$21.62 million. Foreign aid receipts amounted to about \$38 per capita and accounted for approximately 13% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$257. 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, 11% on fuel, 3% on health care, and 22% on education. The richest 10% of the population accounted for approximately 27.2% of household consumption and the poorest 10% approximately 3.2%. It was estimated that in 2001 about 55% of the population had incomes below the poverty line.

## 21 LABOR

In 2000, the labor force included an estimated two million persons. As of that year, agriculture engaged 55%, industry 15%, and services 30%. The estimated unemployment rate in 1999 was 7.2%.

A labor comprehensive law protects the right of all workers to form and belong to unions. The Federation of Independent Trade Unions of Kyrgyzstan (FITUK), successor to the former Soviet-era official unions, remains the single trade union umbrella organization. Nineteen of the 20 union organizations in Kyrgyzstan are affiliated with FITUK. The exception is the union of entrepreneurs and cooperative members, which essentially is an association of over 80,000 self-employed persons. Strikes are permitted. Collective bargaining is legally recognized and is used to negotiate workers conditions on a limited basis.

The standard workweek is 41 hours. Safety and health regulations in factories are generally not enforced. Child labor is widespread due to economic hardship. The government set the minimum wage at \$2.00 per month, which does not provide a decent standard of living.

## 22 AGRICULTURE

In 1998, Kyrgyzstan's crop-producing land amounted to 1,425,000 ha (3,521,000 acres), or 7.4% of the total land area. About 50% of this area is used to cultivate fodder crops, 42% for winter wheat and barley, 5% for commercial crops (cotton, sugar beets, mulberry trees for silkworms, and tobacco), with the remaining 3% used for growing potatoes and other vegetables. Cultivation occurs primarily in the Shu, Talas, and Fergana valleys. About 38% of GDP was derived from agriculture in 2001. Since independence, about 75% of state farms have been privatized.

Wheat is Kyrgyzstan's main grain crop. Total wheat production was estimated at 1,105,000 tons in 1999. Individual farmers account for over half of production; state farms, about 40%; and the rest by private households. Production of barley in 1999 was estimated at 191,000 tons; corn, 308,000 tons; and rice, 14,000 tons.

Tobacco is an important cash crop in Kyrgyzstan. The areas around Osh and Jalalabad in the Fergana Valley and the Talas oblast to the north of Osh are the three major tobacco growing regions. The estimated total production was 30,000 tons in 1999.

## 23 ANIMAL HUSBANDRY

About 44% of the total land area is considered permanent pastureland. Because of the rugged topography, pasture-based stock breeding is the agricultural mainstay.

Livestock in 2001 included 3.2 million chickens, 3,104,000 sheep, 1,970,000 cattle, 324,600 horses, 640,000 goats, and 87,000 pigs. Yaks are also bred. Meat production in 2001 totaled 200,000 tons; cow's milk, 1,110,000 tons; wool (greasy), 11,000 tons; and eggs, 12,700 tons.

## 24 FISHING

The Naryn River is the primary site of fishing activity; but fishing is of little commercial significance. The Yssk Kol Lake is slightly saline and not conducive to the development of fresh water species fishing. The total catch in 2000 was 52 tons, including 10 tons of carp.

## 25 FORESTRY

Forests and woodlands account for about 5.2% of the total land area. With 85% of the country covered by high-altitude mountain ranges, and coupled with an underdeveloped transportation system, the forestry sector is not commercially significant. Imports of forest products totaled \$11.6 million in 2000.

## 26 MINING

Southwestern Kyrgyzstan contained most of the nation's mineral wealth, including, most importantly, antimony (often found with lead-zinc), mercury (often found with fluorspar), and gold. Principal deposits of these minerals were found in the Kadamzhayskiy Rayon and Khaydarkan regions, in the Alay foothills. The Khaydarkan mercury mining and metallurgical complex, in the Osh region, was the major producer of metallic mercury in the former Soviet Union.

In 2000, Kyrgyzstan produced 554 tons of metallic mercury, a 14% decline from 1999; all the mercury, the nation's fifth-leading export commodity, was exported to China. Antimony produced at Kadamzhay was another important export product, because it was suitable for technical purposes requiring high-purity antimony. Uranium, from the center of the country, was processed in the Shu Valley and was a leading export commodity. The mountains also contained deposits of gold, mercury, tungsten, molybdenum, rare earth metals, indium, sulfur, tin, and arsenic. Gold, the fourth-leading export commodity, was mined in the Issyk-Kul' region. Several major gold deposits were under development, and Kyrgyzstan's economy has benefited greatly from gold production by the Kumtor Gold Co., which increased production in 2000 by 10%, to 21.5 tons, and increased recovery rate from ore to 81.5%. A rich deposit of tin, a regionally scarce mineral commodity, was being developed in the eastern mountains. Output figures in 2000 were: antimony, 150 tons, down from 1,200 in 1997; mercury, 257 tons, down from 550 in 1997; fluorspar concentrate, 3,000 tons, down from 4,176 in 1997; and gold, 22,000 kg, up from 1,500 in 1996.

## 27 ENERGY AND POWER

Unlike its Central Asian neighbors, Kyrgyzstan has insignificant reserves of petroleum and natural gas. Kyrgyzstan's principal energy resources are its deposits of coal; subbituminous coal deposits are found on the southern fringe of the Fergana Valley (at Suluktu and Kyzl-Kyya), while hard coal comes from the west and northwest fringes of the valley (at Tash-Komur, Jalal-Abad, and Osh) and in the Tien Shan foothills east of Ysyk Kol Lake. In 2000 coal production amounted to 0.7 million tons.

Several large hydroelectric projects are spread along the Naryn River and its headwater tributaries, and a series of dams, built on irrigation canals, produce power for the manufacturing sector around Bishkek. The two major electric power plants are a 1,200 MW facility at Toktogul and a 760 MW generator at Bishkek. In 2000, electrical production totaled 14,700 million kWh, of which 92.4% came from hydropower and 7.6% from fossil fuels. About 25% was exported (mainly to Uzbekistan). Total installed capacity in 2001 was 3.8 billion kW. Consumption of electricity in 2000 was 9.8 billion kWh.

Production of oil and natural gas in small quantities comes from fields at the northeastern edge of the Fergana Valley; in 2000, Kyrgyzstan produced about 2,100 barrels per day of oil. Kyrgyz natural gas satisfies only a small percentage of domestic demand. In 2000, Kyrgyzstan's natural gas consumption was 1.9 billion cu m (67 billion cu ft), while production was only 14 million cu m (494 million cu ft). Most natural gas is imported from Uzbekistan. A crude oil refinery was built in Dzhahal-ahad in 1997 by a Kyrgyz-Canadian joint venture. It produces heavy fuel oil, diesel fuel, and gasoline.

## 28 INDUSTRY

During the Soviet era, industry in Kyrgyzstan was totally dependent on the other republics for raw materials and other resources. Between 1985 and 1989, industrial output increased at a rate of over 5% annually. With the disruption of traditional supply and export arrangements within the former USSR, however, industrial output declined by 1% in 1990 and dropped

by over 23% in 1992. Industrial production decreased by 24% in 1994 and by another 12.5% in 1995. By mid-1995, production began to recover and in 1997, Kyrgyzstan reported an industrial growth rate of 7%, one of 14% for 1998. The high growth rate in 1998 was associated with a steep rise in gold production. Nearly all of Kyrgyzstan's industrial output derives from the capital of Bishkek and surrounding areas. Mechanical and electrical engineering (vehicle assembly, washing machines, electrical appliances, electronics), light industry (mainly textiles and wool processing), and food processing make up close to 75% of the country's industrial production and 80% of its industrial exports. Other important industries include chemicals, leather goods such as shoes, and construction materials (primarily cement).

The government passed the "Privatization and Denationalization Act" in December 1991, authorizing the transfer of all small, medium, and large-scale industrial enterprises to the private sector. The Concept Law on Privatization passed in 1994 was designed to correct early problems with the transition. By 1995, about 600 enterprises had been sold, with 250 fully privatized. The transition is also expected to involve the conversion of defense industries to civilian use under private ownership. One important conversion thus far involves the participation of a South Korean firm in establishing electronics manufacture at a plant previously geared toward military-related production. The government is encouraging the purchase of substantial shares of individual enterprises by worker collectives, although more widespread and non-collective ownership is also being promoted. By 1999, much of the government's stock had been sold.

## 29 SCIENCE AND TECHNOLOGY

The Kyrgyz Academy of Sciences, founded in 1954 at Bishkek, has departments of physical engineering, mathematics, mining geological sciences, chemical-technological, medical-technological, agricultural, and biological sciences. Attached to the academy are 24 specialized learned societies and research institutes concerned with agriculture, medicine, natural sciences, and technology. Kyrgyz State University has faculties of geography, physics, mathematics, information science and applied mathematics, biology, and chemistry. Agricultural and medical institutes and a technical university are located in Bishkek. In 1987-97, science and engineering students accounted for 14% of college and university enrollments. The city also has a botanical garden and a scientific and technical library.

## 30 DOMESTIC TRADE

As in other post-Soviet republics, structural reform appears to be proceeding most rapidly in the domestic retail sector. Small shops and traders predominate among the country's private retailing entities. However, expansion in the number of private wholesale distributors has been much less marked, placing small retailers in a disadvantaged position compared with large-scale and potentially monopolistic producers within the country's industrial sector. As of 2002, the government continues to work toward reforms, including greater privatization, that would strengthen a market economy. A 20% value-added tax applies to most goods and services.

Most businesses open around 8 AM and close at about 5 PM, with lunch taken sometime between noon and 2 PM. Retail shops are usually open from 7 AM to 8 PM, with an afternoon lunch period. Department stores, bookstores, and other shops usually open according to state institution hours. Bazaars are open from 6 AM until 7 or 8 PM.

## 31 FOREIGN TRADE

Since 1992, Kyrgyzstan's trade balance has been negative, continuing the structural deficit caused by the costs of oil and gas,

pharmaceuticals, and agricultural resources formerly supplied through internal trade with other Soviet republics. The countries of the former USSR still represent the major export markets, but 25% of total exports are typically sent to countries outside the former USSR.

Kyrgyzstan exports metals, including gold, mercury, iron, steel and uranium (15%), hydropower (11.5%), tobacco (9.8%), cotton (4.7%), road vehicles (3.3%), and inorganic chemicals (2.8%).

In 1999 Kyrgyzstan's imports were distributed among the following categories:

Consumer goods	12.4%
Food	11.7%
Fuels	20.1%
Industrial supplies	21.8%
Machinery	26.8%
Transportation	7.1%
Other	0.1%

Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	145	25	120
Uzbekistan	89	75	14
Russia	65	133	-68
China (inc. Hong Kong)	44	37	7
Switzerland	34	3	31
Kazakhstan	33	58	-25
Turkey	7	27	-20
United States	3	54	-51
Turkmenistan	3	19	-16
Canada	n.a.	11	n.a.

## 32 BALANCE OF PAYMENTS

Kyrgyzstan had traditionally maintained a trade deficit, derived mostly from dependence on imports from other former Soviet republics. Exports began to increase by 1995, however; the country registered relatively high growth rates in the early 2000s and had a trade surplus in 2001. Foreign exchange reserves are minimal. In 2001, the IMF awarded Kyrgyzstan \$93 million in aid over a three-year period. Total external debt in 2001 stood at \$1.6 billion.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Kyrgyzstan's exports was \$475 million while imports totaled \$420 million resulting in a trade surplus of \$55 million.

The International Monetary Fund (IMF) reports that in 2001 Kyrgyzstan had exports of goods totaling \$480 million and imports totaling \$441 million. The services credit totaled \$81 million and debit \$125 million. The following table summarizes Kyrgyzstan's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-53
Balance on goods	39
Balance on services	-45
Balance on income	-66
Current transfers	18
<b>Capital Account</b>	-32
<b>Financial Account</b>	31
Direct investment abroad	-6
Direct investment in Kyrgyzstan	5
Portfolio investment assets	1
Portfolio investment liabilities	...
Other investment assets	-4
Other investment liabilities	18
<b>Net Errors and Omissions</b>	21
<b>Reserves and Related Items</b>	32



### 33 BANKING AND SECURITIES

The central bank of Kyrgyzstan is the National Bank of the Kyrgyz Republic. It heads all 20 banks in the system, the savings bank, three former specialized state banks that have been converted into joint-stock commercial banks, two foreign joint-venture banks, and commercial banks. The specialized banks still dominate the allocation of credit and the taking of deposits, although some smaller banks are starting to challenge the major banks. However, many of the country's commercial banks have only one office. The larger banks have large bad loan portfolios; Promstroybank (Construction Bank) had 80% of its loans overdue at the end of 1994. Bank failures and bank consolidation were common during the late 1990s.

The NBK, formerly the local branch of Gosbank (the State Bank of the former Soviet Union), began to operate independently in December 1991 and is intended to perform all the functions of a central bank. The government has stuck with a tight monetary policy. The currency unit was initially the ruble following independence; however, with IMF support, the government introduced a new currency, the som, in May 1993 in order to stabilize the economy, avoid the inflation of the ruble, and attract foreign investment. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$114.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$170.2 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 11.9%.

The country has a small stock exchange, opened in May 1995. As of January 1996, 298 companies issued securities, with 7 trading on the stock exchange.

### 34 INSURANCE

No recent information is available.

### 35 PUBLIC FINANCE

During the early 1990s, economic output declined, while inflation escalated. As a result, the proportion of public revenues in GDP plummeted. Transfers from the former Soviet Union amounting to over 11% of GDP largely created an overall budget surplus equivalent to 4.1% of GDP in 1991. In 1992, parliament agreed to a further tightening of fiscal policy (including decreased expenditures and the elimination of transfers to inefficient state enterprises) due to the virtual termination of in-flowing subsidies caused by the demise of the Soviet Union. The som, currency introduced by the government in May 1993, has proven fairly stable, and monthly inflation has slowed from 40% to about 10%.

The US Central Intelligence Agency (CIA) estimates that in 1999 Kyrgyzstan's central government took in revenues of approximately \$207.4 million and had expenditures of \$238.7 million. Overall, the government registered a deficit of approximately \$31.3 million. External debt totaled \$1.6 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%	207
Tax revenue	77.6%	161
Non-tax revenue	16.0%	33
Grants	6.2%	13
EXPENDITURES	100.0%	239
General public services	14.9%	36
Defense	9.7%	23
Public order and safety	6.3%	15
Education	19.5%	47
Health	11.0%	26
Social security	9.5%	23
Housing and community amenities	5.7%	14
Recreation, cultural, and religious affairs	2.9%	7
Economic affairs and services	11.4%	27
Other expenditures	1.1%	3
Interest payments	8.0%	19

### 36 TAXATION

The personal income tax varies up to a maximum rate of 40%; the corporate rate ranges from 15–55% with a standard rate of 35%. Also levied are a 20% value-added tax; a withholding tax ranging from zero to 5%; and a social security contribution of 37% by employers and 1% by employees.

### 37 CUSTOMS AND DUTIES

Imports are subject to customs duties at an average rate of 10%. The rate is 10–20% for certain products, including tobacco, alcoholic beverages, precious metals, and petroleum. Imported raw materials and imports from the former USSR are exempt. Also, a 20% value-added tax is levied on products from everywhere except Azerbaijan, Belarus, and Russia. Kazakhstan, Belarus, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan have formed a customs union. Kyrgyzstan and the United States signed a most-favored nation agreement in 1992.

### 38 FOREIGN INVESTMENT

In June 1991, the Kyrgyzstan parliament passed the Foreign Investment Law guiding the establishment of local enterprises with foreign shareholding as well as 100% foreign ownership. The law secures the right to repatriation of profits and allows foreign investment in all sectors of the economy except military production and certain forms of ownership in agriculture. Foreign buyers may acquire small enterprises being transferred from the state to the private sector directly on the open market; foreign participation in auctions or other forms of bidding for medium and large-scale enterprises requires special government permission. At present the government is attempting to attract overseas investors, particularly to the minerals, electronics, and agro-processing sectors of the economy. In 1995, the Foreign Investment Law was amended to expand foreign investment opportunities, to clarify investors' rights, and to remove or extend some time limits on certain aspects of foreign investment. Direct foreign investment that year amounted to about \$800 million, and was rising at a slow but steady rate. Investments from Canada represented 45% of the total; these were concentrated primarily in gold mining (the largest single project being the \$375 million development of the Kumtor gold field). Investments from Turkey comprised about 20% of the total; those from the US, 12%; and China, 10%. In 1998, foreign direct investment totaled \$102 million, up from \$83 million in 1997.

### 39 ECONOMIC DEVELOPMENT

Under the Soviet system, economic planning efforts in Kyrgyzstan focused on increasing agricultural production (particularly in the meat and dairy subsectors during the 1980s) and specialized development of industrial sectors in line with the wider Soviet economy. Transfer payments from the central government as well as capital inflows into state enterprises covered the republic's

modest balance of trade deficit with its Soviet trading partners and countries beyond. With this support, GDP growth was sustained at moderately high levels in the late 1980s, averaging 5.1% in 1985–89.

Kyrgyzstan declared its independence in 1991. Since then, the Kyrgyzstan government faced the task of sustaining a viable national economy despite the sudden cessation of transfers from the central government, the country's critical dependence on oil and gas imports, and its landlocked geographic position that has hampered development of trading ties outside the economically troubled former Soviet Union. Reforms have aimed at making the transition to a market-oriented economy.

Kyrgyzstan experienced declines in gross domestic product (GDP) from 1991–94. Both per capita income and overall output fell to well below the 1990 level. Agricultural output fell by an estimated 20%, and industrial output, by 42%. By 1996, however, Kyrgyzstan had begun to show progress, especially when compared to the other former Soviet republics, in the areas of privatizing state enterprises, ending the state ordering system, lifting price controls, and converting military enterprises to civilian uses. Prime Minister Apas Jumagulov reported in 1995 that the economic crises had eased, and the rates of decline were slowing.

A value-added tax was introduced in 1992 to help strengthen the government revenue base. Expected state revenues however, have fallen short of expectation due to steeply declining consumption and collection difficulties within the new tax system. With seriously declining revenues since 1991, the government's ability to make new development investments in either the productive sectors or physical and social infrastructure has been severely constrained. Capital expenditures as a percentage of total budgetary expenditures declined from 15% in 1990 to only 7% in 1992. Because of its commitment to democracy, Kyrgyzstan has received favorable treatment from international economic aid agencies. In 1992, the government signed a formal agreement with Russia transferring its share of the former Soviet Union's external debt to the latter in return for relinquishing most claims to the financial and other assets of the former USSR.

In May 1996, President Akayev negotiated an aid package from the Asian Development Bank that included \$60 million in loans to finance privatization of agriculture and to renovate power and heating facilities in Bishkek. In support of the government's efforts to evolve the country's agriculture from large communes to private farms, the Asian Development Bank also offered loans to small farmers. In July 1996, the International Finance Corporation promised \$40 million to finance a project to mine for gold near Issy-Kul', a large lake in the northeast. In November 1996, the World Bank moved to support programs to reform the Kyrgyzstan banking system and to modernize the electric power generating system.

#### 40 SOCIAL DEVELOPMENT

Old age, disability and survivorship pensions are provided to all employed persons and members of cooperatives and collective farms. Contributions of 2.5% of earnings from employees, and 34% of payroll by employers finance the program. A universal medical care system exists for all residents. Maternity benefits for employed women include 100% of pay for 126 days of leave. Workers' compensation, unemployment benefits, and family allowances are also provided.

Women have equal status under the law although discrimination persists. Women are well-represented in the work force in urban areas, and participate in higher education and professional fields. However, they appear to be disproportionately affected by growing unemployment. A women's congress in Bishkek convenes periodically to consider women's issues. Opportunities for women are lacking in the rural

areas. Domestic abuse and violence against women remain common. The lack of government funds impacts the programs aimed at assisting children. Child labor is increasingly common.

In 1993, parliament narrowly rejected a law to legalize polygamy, a Muslim custom practiced in Kyrgyzstan. Polygyny (one man having multiple wives) is more common, and a husband must financially provide each wife with her own separate household. In order for a woman to have multiple husbands (polyandry), she must have substantial wealth or influence.

There is reported discrimination in hiring, promotion, and housing against citizens who are not ethnic Kyrgyz. Police brutality has been reported, as well as arbitrary arrest and detention. The government violates basic civil rights, including the freedoms of speech, assembly, association, and the press.

Compared to other Central Asian states, many observers stress, Kyrgyzstan has a less objectionable human rights record. According to the State Department's *Country Reports on Human Rights Practices for 2001*, however, the Kyrgyz government's human rights record remains poor. There were problems with freedom of speech and the press, due process for the accused, religious freedom, ethnic discrimination, and electoral irregularities. There are cases of police brutality and arbitrary arrest. Citizens have only a limited ability to peaceably change their government. Elections and referenda have involved irregular procedures. There are independent newspapers, magazines, and radio stations, and some independent television broadcasts, though the government increasingly adopted measures to curtail the operations of independent media.

#### 41 HEALTH

Kyrgyzstan's health care system has remained state-run following the breakup of the Soviet Union. Primary health care is being restructured using a family group practice model. As of 1999, there were an estimated 3 physicians and 9.5 hospital beds per 1,000 people. Approximately 26% of the country's hospital beds were eliminated between 1990 and 1996, but hospital expenditures still account for more than 70% of health care spending. As of 1999, total health care expenditure was estimated at 4.4% of GDP.

The infant mortality rate in 2000 was 23 per 1,000 live births and the maternal mortality rate in 1998 was 65 per 100,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.1 and 9.1 per 1,000 people. Major causes of death in 1990 (per 100,000 people) were communicable diseases and maternal/perinatal causes, 124; noncommunicable diseases, 651; and injuries, 95. Between 1990 and 1994, immunization rates for children up to one year old were tuberculosis, 97%, and polio, 84%. As of 1999 the rates for DPT and measles immunizations were, respectively, 98% and 97%. Tuberculosis incidence and mortality rates are rising steeply, reflecting economic hardship and the deterioration of the health infrastructure. In 1999, there were 130 cases of tuberculosis per 1,000 people. Controlled for 30 years, diphtheria has reemerged since the breakup of the Soviet Union. In 1994, there were 489 new cases of diphtheria. Nearly 50% of these cases occurred in persons 15 or under. The cancer mortality rates in Kyrgyzstan were higher than the medium human development countries during 1990–1993. In 2000, life expectancy was 67 years for both men and women.

In 1999 the number of people living with HIV/AIDS and deaths from AIDS were both under 100. HIV prevalence was less than 0.01 per 100 adults.

#### 42 HOUSING

During the Soviet era, there was a severe lack of urban housing in Kyrgyzstan. In 1990, Kyrgyzstan had 12.1 sq m of housing space per capita and, as of 1 January 1991, 85,000 households (or 18.6%) were on waiting lists for housing in urban areas. From

1996–2000, only about 14,800 new dwellings were built. In 2000, about 77% of the population had access to improved water sources; most residents had access to improved sanitation.

### 43 EDUCATION

The adult illiteracy rate in 1995 was estimated at 0.4% (males, 0.3%; females, 0.5%). The educational system was not developed until after the 1920s when the country came under Soviet control. In 1996, 473,077 students were enrolled in 1,885 primary schools, with 24,086 teachers. In the same year, secondary schools had 530,854 students and 42,286 teachers. The pupil-teacher ratio at the primary level was 24 to 1 in 1999. In the same year, 82% of primary-school-age children were enrolled in school. In 1996, there were 49,744 students enrolled and 3,691 teaching staff employed at institutions of higher learning, including the State University of Kyrgyzstan. As of 1999, public expenditure on education was estimated at 5.4% of GDP.

### 44 LIBRARIES AND MUSEUMS

Important libraries in Kyrgyzstan include the National Library of the Kyrgyz Republic, with over 3.6 million volumes, and the Scientific Technical Library of Kyrgyzstan, with over 5.8 million volumes. The Kyrgyzstan State University library contains over 931,000 volumes, the Kyrgyzstan Agricultural Institute holds 626,000, and the Kyrgyzstan Technical University holds 766,000 volumes.

The State Historical Museum of Kyrgyzstan has 20,000 items on display depicting the history of Kyrgyzstan. The Kyrgyzstan Museum of Fine Arts collects primarily modern work. There are several regional museums exhibiting primarily archaeological findings.

### 45 MEDIA

Telephone links to other former Soviet republics are via land line or microwave, and to other countries through Moscow. The telephone network is underdeveloped, with some 58,000 residents waiting for telephone lines as of 2000. In 1997 there were an estimated 351,000 telephones in use.

Dom Radio in Bishkek broadcasts in Kyrgyz, German, Dungan, and Russian. In 1998, there were 12 AM and 14 FM radio stations. Television programming is provided through Orbita and INTELSAT. In 2000 there were 111 radios and 49 television sets in use per 1,000 population. In 2001, there were 51,600 Internet subscribers.

In 2002 there were four daily newspapers. They were *Sovetik Kyrzystan* (circulation 162,625), *Slovo Kyrgyzstan* (in Russian, circulation 111,000), *Vecherni Bishkek* (also in Russian, with a circulation of 51,500), and *Kyrgyz Tuusu* (NA).

On 2 July 1992 the government passed a law on the press and mass media which supports freedom of the press but also provides guidelines proscribing publication of certain information. The law supports the right of journalists to work, obtain information, and publish without prior restraint. The law prohibits publication of state secrets, material which advocates the overthrow of, or changes to, the existing constitutional order in Kyrgyzstan or elsewhere. It also prohibits publication of material that advocates war, violence, or intolerance toward ethnic or religious groups. Desecration of national norms, ethics, and symbols like the national seal, anthem, or flag is prohibited. Publication of pornography is prohibited, as is propagation of untrue information.

The press is free to publish material without prior government approval or restraint, although some infringement of press freedoms was reported as of 1999.

### 46 ORGANIZATIONS

Important economic organizations in Kyrgyzstan include the Chamber of Commerce and Industry and the Kyrgyzstan Federation of Trade Unions. Active political organizations include the Committee for the Defense of Human Rights, the Slavic Fund, Free Kyrgyzstan, Agigat, and Ashar. The Kyrgyz Bar Association was formed in August 1995. Kiwanis International has programs in the country. The Red Crescent Society is also active.

### 47 TOURISM, TRAVEL, AND RECREATION

Osh, Kyrgyzstan's second-largest city, is considered a holy city by Muslim pilgrims who visit it annually to pray at its Islamic shrines. The capital city of Bishkek is surrounded by some of the highest mountain ranges in the world. Bishkek is known for its large public parks and gardens, shady avenues, and botanical gardens. Equestrian sports are very popular in Kyrgyzstan.

Visas are required for entry to Kyrgyzstan and are obtainable upon arrival or through Kyrgyz embassies abroad and tour companies. The principal accommodations are hotels that formerly belonged to the Soviet Intourist system. However, foreign chains are currently developing a number of projects in Central Asia. In 1999 there were 68,863 visitor arrivals in the country and tourism receipts totaled \$14 million.

According to 2002 US Department of State estimates, the daily cost of staying in Bishkek is approximately \$183 per day.

### 48 FAMOUS KYRGYZSTANIS

Askar A. Akayev was elected president of the republic of Kyrgyzstan, in October 1990, prior to the republic declaring its independence. Chingiz Aitmatov (b.1928), winner of two Lenin Prizes for literature, is a native Kyrgyzstani.

### 49 DEPENDENCIES

Kyrgyzstan has no territories or colonies.

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# LAO PEOPLE'S DEMOCRATIC REPUBLIC

Laos

*Sathalanalat Paxathipatai Paxaxon Lao*

**CAPITAL:** Vientiane (Viangchan)

**FLAG:** The national flag, officially adopted in 1975, is the former flag of the Pathet Lao, consisting of three horizontal stripes of red, dark blue, and red, with a white disk, representing the full moon, at the center.

**ANTHEM:** *Pheng Sat Lao (Hymn of the Lao People).*

**MONETARY UNIT:** The new kip (₭) is a paper currency of 100 at (cents). There are notes of 10, 20, 50, 200, and 500 new kip. ₭1 = \$0.00009385 (or \$1 = ₭10,655) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but older local units also are used.

**HOLIDAYS:** Anniversary of the Founding of the Lao People's Democratic Republic, 2 December. The government generally reschedules on weekends such traditional festivals as the Lao New Year (April); Boun Bang-fai (Rocket Festival), the celebration of the birth, enlightenment, and death of the Buddha (May); Boun Khao Watsa, the beginning of a period of fasting and meditation lasting through the rainy season (July); Boun Ok Watsa (Water Holiday), a celebration of the end of the period of fasting and meditation (October); and That Luang, a pagoda pilgrimage holiday (November).

**TIME:** 7 PM = noon GMT.

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

Laos is a landlocked country on the Indochina Peninsula near the eastern extremity of mainland Southeast Asia. Laos occupies an area of 236,800 sq km (91,429 sq mi), extending 1,162 km (722 mi) SSE–NNW and 478 km (297 mi) ENE–WSW. Comparatively, the area occupied by Laos is slightly larger than the state of Utah. It is bordered on the N by China, on the E and SE by Vietnam, on the S by Cambodia, on the W by Thailand, and on the NW by Myanmar, with a total boundary length of 5,083 km (3,158 mi).

The capital of Laos, Vientiane, is located along the country's southwestern boundary.

## <sup>2</sup>TOPOGRAPHY

The terrain is rugged and mountainous, especially in the north and in the Annam Range, along the border with Vietnam. The mountains reach heights of more than 2,700 m (8,860 ft), with Pou Bia, the highest point in Laos, rising to 2,817 m (9,242 ft) in the north-central part of the country. Only three passes cross the mountains to link Laos with Vietnam. The Tran Ninh Plateau, in the northeast, rises to between 1,020 m and 1,370 m (3,350–4,500 ft), and the fertile Bolovens Plateau, in the south, reaches a height of about 1,070 m (3,500 ft). Broad alluvial plains, where much of the rice crop is grown, are found only in the south and west along the Mekong River and its tributaries. Of these, the Vientiane plain is the most extensive.

Except for a relatively small area east of the main divide, Laos is drained by the Mekong and its tributaries. The Mekong flows in a broad valley along the border with Thailand and through Laos for 1,805 km (1,122 mi). In its low-water phase, it is almost dry, but it rises more than 6 m (20 ft) during the monsoon period. The river is wide, but except for a navigable stretch between Vientiane and Savannakhét, rapids are numerous. Below Savannakhét and at the extreme south there are large rapids and waterfalls. Floods are common in the rainy season.

## <sup>3</sup>CLIMATE

Laos has a tropical monsoon climate with three main seasons. The rainy season is from May through October, when rainfall averages 127 to 229 cm (50–90 in). November through February is a cool, dry season. March through April is a hot, dry season, during which temperatures can be as high as 40°C (104°F). Humidity is high throughout the year, even during the season of drought. Average daily temperatures in Vientiane range from 14° to 28°C (57–82°F) in January, the coolest month, and from 23° to 34°C (73–93°F) in April, the hottest.

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

Nearly two-thirds of Laos is covered by thick forest. The forests of southernmost Laos are an extension of the Kampuchean type of vegetation, while the highland forests of the north, consisting of prairies interspersed with thickets, resemble central Vietnam. Bamboo, lianas, rattan, and palms are found throughout Laos.

Roaming the forests are panthers and a dwindling number of tigers, elephants, and leopards. The elephant, until 1975 depicted on the national flag as the traditional symbol of Lao royalty, has been used throughout history as a beast of burden. A local breed of water buffalo also is universally used as a draft animal. Reptiles include cobras, geckos, kraits, and Siamese crocodiles. There are many varieties of birds, fish, and insects.

## <sup>5</sup>ENVIRONMENT

Soil erosion, deforestation, and flood control are the principal environmental concerns in Laos, there being only minimal industrial development. The government seeks to control erosion by discouraging the traditional slash-and-burn agriculture practiced by many mountain tribes, and by resettling the tribes in permanent villages.

Reforestation projects have been promoted by the government as a means of increasing lumber exports and of restoring valuable hardwoods to logged-out forest areas. Each person was required to plant five trees in the course of the 1981–85 economic plan. In 1986, the government prohibited the cutting of 15 different



LOCATION: 100° to 107°E; 13°40' to 22°40' N. BOUNDARY LENGTHS: China, 425 kilometers (264 miles); Vietnam, 1,555 kilometers (966 miles); Cambodia, 541 kilometers (336 miles); Thailand, 1,754 kilometers (1,090 miles); Myanmar, 238 kilometers (148 miles).

varieties of trees. At that time, forests were reportedly being consumed at a rate of 300,000 hectares (741,000 acres) per year. Between 1983 and 1993, Laos suffered a further decline of 11.3% in its forest and woodland area.

Laos has 190 cubic kilometers of renewable water resources with 82% used in farming activity and 10% used for industrial purposes. Only 61% of city dwellers and 29% of rural citizens have access to safe drinking water. The nation's water supply has begun to decrease due to a combination of factors, among them the loss of forest land, uncontrolled agricultural practices, flooding and drought. Pollution from fires, dust, and cars is also becoming a national problem.

In 2001, 30 of Laos's mammal species and 27 bird species were threatened. One of the nation's plant species was endangered. Endangered species in Laos included the douc langur, three species of gibbon (pileated, crowned, and capped), tiger, Asian elephant, Sumatran rhinoceros, Javan rhinoceros, Thailand brow-antlered deer, kouprey, and Siamese crocodile. The Vietnam warty pig has become extinct.

## 6 POPULATION

The population of Laos in 2003 was estimated by the United Nations at 5,657,000, which placed it as number 102 in

population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 43% of the population under 15 years of age. There were 100 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.29%, with the projected population for the year 2015 at 7,282,000. The population density in 2002 was a sparse 23 per sq km (60 per sq mi), but the population is unevenly spread, with the greatest concentration in the Mekong Valley. More than 70% of the population is rural, living in some 9,000 villages.

It was estimated by the Population Reference Bureau that only 24% of the population lived in urban areas in 2001. The capital city, Vientiane, had a population of 640,000 in that year. Other large towns, all on or near the Mekong and its tributaries, are Savannakhet, Pakxé, Luangphrabang (the former royal capital), Xaignabouri, and Ban Houayxay. According to the United Nations, the urban population growth rate for 2000–2005 was 4.9%.

## 7 MIGRATION

There has been only limited population movement into Laos in modern times. During the late 1960s and early 1970s, under pressure of combat operations, Black Tai tribesmen moved southward into the Mekong Valley. Between 1975–90, over 360,000 Laotians fled to Thailand and China. The majority resettled and were given new lives in Western nations. To date, more than 27,000 Laotians have repatriated. In 1996, some 6,000 Laotian refugees remained in Thailand, and several hundred remained on collective farms in China. As of 1999, about 1,100 of the small number of refugees still remaining in Ban Napho camp in Thailand were determined not to have valid refugee claims. The two governments agreed that they should return to Laos, with UNHCR assistance; however, only a few families and individuals have volunteered to do so thus far. In the mid-1990s, as Laos opened up to international investment and development, Vietnamese workers began migrating to Laos—although in relatively small numbers—to work in the construction industry, primarily. The net migration rate for 2000 was -0.3 migrants per 1,000 population. The government views the immigration level as satisfactory, but the emigration level as too high.

## 8 ETHNIC GROUPS

There are officially 68 ethnic groups in Laos. About 68% of all Laotians are Lao-Loum, or lowland Lao, a people related to the people of Thailand; thought to have migrated to Laos from southwestern China in the 8th century, the Lao-Loum are concentrated in the lowlands along the Mekong. On the hillsides live the Lao-theung, or slope dwellers, a diverse group dominated by the Lao-tai (with various subgroups, including the Black Tai), who are ethnically related to the Lao-Loum. They account for 22% of the population. At higher altitudes are the Lao-soung, or mountain dwellers, a diverse group of ethnic minorities of mainly Malayo-Polynesian or proto-Malay backgrounds. They constitute 9% of the population. Important among the Lao-soung, and more prosperous than most Lao because of the opium poppies they grow, are the Hmong (Meo), a people of Tibeto-Burman origin who supported the American presence until 1975 and, because of their continuing insurgency, became the targets of harassment by government and Vietnamese troops. Other important upland tribes, all with customs and religions considerably different from those of the lowland Lao, are the Ho, Kha, Kho, and Yao (Mien). Ethnic Vietnamese and Chinese account for 1% of the population.

## 9 LANGUAGES

Lao, the official language and the language of the ethnic Lao, is closely related to the language of Thailand. It is monosyllabic and tonal and contains words borrowed from Sanskrit, Pali, and Farsi. Pali, a Sanskritic language, is used among the Buddhist priesthood.

Other groups speak the Tibeto-Burman, Non-Khmer, or Miao-Yao languages. French, formerly the principal language of government and higher education, has been largely replaced by Lao. English and various ethnic languages are also spoken.

## 10 RELIGIONS

Between 60% and 65% of all Laotians, including nearly all the Lao-Loum, are adherents of Theravada Buddhism, a large part of whose daily life is shaped by its rituals and precepts. Buddhist temples, found in every village, town, and city, serve as intellectual as well as religious centers. Vientiane and Luangprabang have been called cities of thousands of temples. More than 70 pagodas were built in Vientiane alone in the 16th century, including the famous Wat Phra Keo and That Luang. Despite the major role that Buddhism, its temples, and its priests have played in Laotian life, the average lowland Lao regulates a large part of daily activities in accordance with animistic concepts. Certain spirits (*phi*) are believed to have great power over human destiny and to be present throughout the material world, as well as within nonmaterial realms. Thus, each of the four universal elements (earth, sky, fire, and water) has its special *phi*; every road, stream, village, house, and person has a particular *phi*; forests and jungles are inhabited by *phi*. Evil *phi* can cause disease and must be propitiated by sacrifices.

Approximately 30% of the population practice animism. About 34% of Laotians, including the upland tribes, are almost exclusively animists, although influenced by Buddhism to some extent. Christian missionaries have been active in Laos, but less than 2% of all Laotians profess the religion.

About 2% of the population are Christians, with about 60,000 Protestants and 40,000 Roman Catholics. Most Protestants are members of the Lao Evangelical Church or Seventh-Day Adventists, which are the only two officially recognized Protestant groups. Other minority religions include the Baha'i faith, Islam, Mahayana Buddhism, Taoism, and Confucianism.

Though religious activity was discouraged by the state from 1976 to 1979, freedom of religion has been legally guaranteed since the constitution of 1991.

## 11 TRANSPORTATION

Lack of adequate transportation facilities continues to be a major deterrent to economic progress. Of the approximately 14,000 km (8,700 mi) of roads, only about 3,360 km (2,088 mi) were paved in 2002; many are impassable in the rainy season. Only a single major road connects the northern and southern regions. Most of the roads were damaged by US bombing in the Vietnam war, but the main links with Vietnam (notably Highway 9, from Savannakhét to the Vietnamese port of Da Nang, and Highways 7 and 13, from Vientiane and Savannakhét to the Vietnamese port of Vinh and Ho Chi Minh City, respectively) are being rebuilt with Vietnamese aid. Under the 1981-85 economic plan, 844 km (524 mi) of roads were built or improved. The 1986-90 plan projected an additional 1,500 km (932 mi), 50% of which was to be asphalted. There are no railroads in Laos, although in 1994, the government entered into an agreement with a Thai company to build a railroad from Nong Khai in Thailand to Vientiane.

In 2001 there were 51 airports, only 9 of which had paved runways. Vientiane has the only international airport. Major cities in Laos are connected by air services operated by state-run Lao Aviation, founded with Soviet aid in 1976. In 1995, the

government signed an agreement with China's Yunnan Airlines forming a joint venture projected to increase Yunnan's holdings of Lao Aviation to 60% while the former pays off the latter's debt. In 2001 210,800 passengers were carried on scheduled domestic and international airline flights.

Landlocked, Laos' only water-transport link with the outside world is via the Mekong River, which forms a large part of the border with Thailand and flows through Cambodia and Vietnam into the South China Sea. The Mekong is navigable for small transport craft and, with its tributaries in Laos, forms a 4,587-km (2,850-mi) inland waterway system, although rapids make necessary the transshipment of cargo. To lessen dependence on Thailand, Laos in 1977 signed an agreement with Vietnam whereby the Vietnamese port of Da Nang would replace Bangkok as the chief outlet for Laos. In 2002, Laos had one merchant vessel, a cargo ship at 2,370 GRT.

## 12 HISTORY

Although archaeological evidence indicates that settlers along the Mekong had learned agriculture, metallurgy, and pottery making by 3000 BC, little is known about the early history of the land that today bears the name of Laos. The lowland Lao are believed to be the descendants of Thai tribes that were pushed southward in the 8th century. According to tradition, the kingdom called Lan Xang ("a million elephants") was established in 756 by King Thao Khoun Lo. In 1353, it was reunified by Fa-Ngoum, who had been raised at the court of Angkor in Kampuchea and returned with a force of Khmer troops. He is also credited with the introduction of Hinayana Buddhism into Laos. Lan Xang waged intermittent wars with the Khmers, Burmese, Vietnamese, and Thai and developed an effective administrative system, an elaborate military organization, and an active commerce with neighboring countries. In 1707, internal dissensions brought about a split of Lan Xang into two kingdoms, Luangphrabang in the north (present-day upper Laos) and Vientiane in the south (lower Laos). Strong neighboring states took advantage of this split to invade the region. Vientiane was overrun and annexed by Siam (Thailand) in 1828, while Luangphrabang became a vassal of both the Chinese and the Vietnamese. In 1893, France, which had already established a protectorate over what is now central and northern Vietnam, extended its control to both Vientiane and Luangphrabang, and Laos was ruled by France as part of Indochina. Although French control over Luangphrabang took the nominal form of a protectorate, the French colonial administration directly ruled the rest of Laos, legal justification being ultimately provided in the Lao-French convention of 1917.

During World War II, Laos was occupied by Japan. After the Japanese proclaimed on 10 March 1945 that "the colonial status of Indochina has ended," the king of Luangphrabang, Sisavang Vong, was compelled to issue a declaration of independence. The nationalist Free Lao (Lao Issarak) movement deposed the monarch soon after, but French forces reoccupied Laos, and on 27 August 1946, France concluded an agreement establishing him as king of Laos and reimposing French domination over the country. In May 1947, the king established a constitution providing for a democratic government. On 19 July 1949, Laos nominally became an independent sovereign state within the French Union. Additional conventions transferring full sovereignty to Laos were signed on 6 February 1950 and on 22 October 1953. All special economic ties with France and the other Indochinese states were abolished by the Paris pacts of 29 December 1954. In the meantime, Vietnamese Communist (Viet-Minh) forces had invaded Laos in the spring of 1953. A Laotian Communist movement, the Pathet Lao (Lao State), created on 13 August 1950 and led by Prince Souphanouvong, collaborated with the Viet-Minh during its Laotian offensive. Under the Geneva cease-fire of 21 July 1954, all Viet-Minh and most French troops were to withdraw, and the Pathet Lao was to pull back to

two northern provinces, pending reunification talks with the national government under the leadership of Souvanna Phouma (Souphanouvong's half-brother). The negotiations were completed on 2 November 1957, and the Pathet Lao transformed itself into a legal political party called the National Political Front (Neo Lao Hak Xat). However, a political swing to the right that led to the ouster of Souvanna Phouma as prime minister, coupled with the refusal of the Pathet Lao forces to integrate into the Royal Lao Army, led to a renewal of fighting in May 1959.

A bloodless right-wing coup in January 1960 was answered in August by a coup led by paratroops, under the command of Capt. Kong Le; in the ensuing turmoil, Souvanna Phouma returned to power. After a three-day artillery battle that destroyed much of Vientiane, right-wing military elements under Gen. Phoumi Nosavan and Prince Boun Oum occupied the capital on 11 December. A new right-wing government under Prince Boun Oum was established, but further military reverses, despite a heavy influx of US aid and advisers, caused the government to ask for a cease-fire in May 1961. An international conference assembled in Geneva to guarantee the cease-fire. All three Laotian political factions agreed on 11 June 1962 to accept a coalition government, with Souvanna Phouma as prime minister. On 23 July, the powers assembled at Geneva signed an agreement on the independence and neutrality of Laos, which provided for the evacuation of all foreign forces by 7 October. The United States announced full compliance, under supervision of the International Control Commission (ICC), set up in 1954. Communist forces were not withdrawn. Fighting resumed in the spring of 1963, and Laos was steadily drawn into the role of a main theater in the escalating Vietnam war. The Laotian segment of the so-called Ho Chi Minh trail emerged as a vital route for troops and supplies moving south from the Democratic Republic of Vietnam (DRV), also known as North Vietnam, and was the target for heavy and persistent US bombing raids. While the Vientiane government was heavily bolstered by US military and economic support, the Pathet Lao received key support from the DRV, which was reported to have 20,000 troops stationed in Laos by 1974. Efforts to negotiate a settlement in Laos resumed with US backing in 1971, but a settlement was not concluded until February 1973, a month after a Vietnam peace agreement was signed in Paris. On 5 April 1974, a new coalition government was set up, with equal representation for Pathet Lao and non-Communist elements. Souvanna Phouma, 73 years old and in failing health, stayed on as prime minister, while Prince Souphanouvong was brought closer to the center of political authority as head of the newly created Joint National Political Council.

The Pathet Lao had by this time asserted its control over three-fourths of the national territory. Following the fall of the US-backed regimes in Vietnam and Cambodia in April 1975, the Laotian Communists embarked on a campaign to achieve complete military and political supremacy in Laos. On 23 August, Vientiane was declared "liberated" by the Pathet Lao, whose effective control of Laos was thereby secured. On 2 December 1975, the Lao People's Democratic Republic (LPDR) was established, with Prince Souphanouvong as president and Kaysone Phomvihane as prime minister. King Savang Vatthana abdicated his throne, ending the monarchy that had survived in Laos for 622 years. Elections for a new National Assembly were called for April 1976; however, voting was put off indefinitely, amid reports of civil unrest and sabotage. A Supreme People's Council was convened, meanwhile, with Prince Souphanouvong as chairman, and was charged with the task of drafting a new constitution.

During the late 1970s, the Communists moved to consolidate their control and socialize the economy. Private trade was banned, factories were nationalized, and forcible collectivization of agriculture was initiated. "Reeducation" camps for an

estimated 40,000 former royalists and military leaders were established in remote areas; as of 1986, the government maintained that almost all the inmates had been released, but Amnesty International claimed that about 5,000 remained. A 25-year friendship treaty with Vietnam, signed in July 1977, led to closer relations with that country (already signaled by the continued presence in Laos of Vietnamese troops) and with the former USSR, and also to the subsequent dismissal from Laos of all Chinese technicians and advisers. China, for its part, began to give support and training to several small antigovernment guerrilla groups. With the economy in 1979 near collapse, in part because of severe drought in 1977 and flooding in 1978, the Laotian government slowed the process of socialization and announced a return to private enterprise and a readiness to accept aid from the non-Communist world. Throughout the 1980s armed opposition to the government persisted, particularly from the Hmong hill tribe rebels. At the Fourth Party Congress of the Lao People's Revolutionary Party (LPRP), in December 1986, a "new economic management mechanism" (NEM) was set up, aiming at granting increased autonomy in the management of formerly state-run enterprises to the private sector.

In 1988 the Lao national legislature, the Supreme People's Assembly (SPA), adopted new election laws and the first elections since the formation of the LPDR in 1975 were held. Local and provincial elections were held in 1988, and on 27 March 1989 national elections took place for an enlarged Supreme People's Assembly. In March 1991 the Fifth Party Congress of the LPRP changed Kaysone Phomvihane's title from prime minister to president, elected a new 11-member politburo, pledged to continue economic reforms in line with free-market principles while denying the need for political pluralism, and changed the national motto by substituting the words "democracy and prosperity" for "socialism." The newly elected SPA drafted a constitution adopted on 14 August 1991. The constitution provided for a national assembly functioning on principles of "democratic centralism," established the LPRP as the political system's "leading organ," created a presidency with executive powers, and mandated a market-oriented economy with rights of private ownership.

President Kaysone Phomvihane, longtime LPRP leader, died on 21 November 1992. A special session of parliament on 24 November 1992 elected hard-line Communist Nouthak Phoumsavan as the next president. Gen. Khamtai Suphandon, who had been prime minister since 15 August 1991, remained in that post. National Assembly elections were held in December 1992. One day before these elections, three former officials who called for a multiparty democracy and had been detained in 1990 were sentenced to 14 years imprisonment. The National Assembly convened in February 1993 and approved government reorganization designed to improve public administration. On 9 January 1995, longtime leader Prince Souphanouvong died, unofficially marking an end to Laos' long dalliance with hard-line Marxism. Although the NEM had initiated an opening up to international investment and improved relations with the rest of the world, there remained elements of the old guard in positions of power. With the death of Souphanouvong, the only old-time hard-line Marxist still in power as of 1996 was the country's president, Nouthak Phoumsavan. Khamtai Siphandon, prime minister and party chief, was more powerful than Nouthak and is largely credited with exerting a moderating influence on the hard-liner. Nonetheless, there remains a strongly conservative mindset among the politburo members that still pulls the government back from economic flexibility or any hint of political liberalization.

Laos has actively improved its already "special relations" with Vietnam and Cambodia, while always seeking to improve relations with Thailand, the People's Republic of China (PRC), and the United States. Periodic meetings are held to promote the

cooperative development of the Mekong River region by Laos, Thailand, Vietnam, and Cambodia. Laos and the People's Republic of China restored full diplomatic relations in 1989 and are now full-fledged trading partners. Mutual suspicions, characterizing the relationship between Laos and Thailand, improved with agreements to withdraw troops and resolve border disputes, and agreements between the United Nations High Commissioner for Refugees (UNHCR) to repatriate or resettle nearly 60,000 Lao refugees in Thailand. Laos has cooperated with the United States in recovering the remains of US soldiers missing in action in Laos since the Vietnam War and in efforts to suppress drug-trafficking. The US Department of State objects to Laos' restrictions on free speech, freedom of assembly and religious freedom. US Assistant Secretary of State Stanley Roth commented in March 2000 that Laos is unlikely to gain Most Favored Nation trading status unless it accounts for the fate of two naturalized US citizens, Hmong activists who disappeared in Laos during 1999. The debate over whether to grant Laos normal trade relations status was ongoing as of early 2003.

On 26 February 1998, Khamtai Siphandon was elected president, and he was reelected in March 2001. Beginning in 2000, Vientiane was hit by a series of bomb blasts, attributed to anti-government groups based abroad. Beginning in the late 1990s, tensions emerged between rival groups of ethnic Hmong in the highlands. Triggered by Thailand's closing of refugee camps on its side of the Laos-Thai border, tens of thousands of exiles were forced to return home. Most were expected to be jailed or executed for their anti-government activities, but instead, the government encouraged their peaceful settlement among the lowland population. Certain right-wing guerrilla factions among the Hmong, long fighting the Pathet Lao, subsequently reacted violently to the government's pacification efforts to integrate moderate Hmong villagers. On 6 February 2003 near Vang Vieng, a bus and 2 Western bicyclers were attacked by gunmen, who killed twelve people. Militant Hmong were blamed for the attack.

On 24 February 2002, parliamentary elections were held, but all but one of the 166 candidates were from the Lao People's Revolutionary Party (LPRP). The LPRP won 108 of 109 seats in the National Assembly.

### 13 GOVERNMENT

Under the constitution of 1947 (as subsequently amended), Laos was a parliamentary democracy with a king as the nominal chief executive. The monarch was assisted by a prime minister (or president of the Council of Ministers), who was the executive and legislative leader in fact. The prime minister and cabinet were responsible to the national assembly, the main repository of legislative authority, whose 59 members were elected every five years by universal adult suffrage. With the establishment of the Lao People's Democratic Republic in December 1975, governmental authority passed to a national congress made up of 264 delegates elected by newly appointed local authorities. The congress in turn appointed a 45-member Supreme People's Council to draw up a new constitution. Pending the completion of this task effective power rested with Kaysone Phomvihane, a longtime Pathet Lao leader who headed the government as chairman of the Council of Ministers and was also secretary-general of the Lao People's Revolutionary (Communist) Party.

Prince Souphanouvong, the head of state and president of the Supreme People's Council since 1975, left office in October 1986 because of poor health. He was replaced first by Phoumi Vongvichit, a former vice-chairman of the Council of Ministers, and later by Sisomphon Lovansay, a former vice president of the Supreme People's Council. The Lao national legislature, the Supreme People's Assembly (SPA), adopted new election laws in 1988, and the first national elections under the current government took place in March 1989 (local elections were held

in 1988). Kaysone Phomvihane was elected president and Khamtai Siphandon was named prime minister. The newly elected SPA set out to draft a constitution, which was finished in mid-1990, and adopted on 14 August 1991 by the SPA. Khamtai Siphandon was elected president in 1998, and reelected in 2001. The executive branch consists of the president, prime minister and two deputy prime ministers, and the Council of Ministers (cabinet) which are appointed by the president with the approval of the National Assembly. The legislative branch is the 109-member National Assembly which is elected by universal suffrage for a period of five years. The judicial branch is the Supreme People's Court Leaders. The constitution calls for a strong legislature elected by secret ballot, but most political power continues to rest with the party-dominated council of ministers, who are much aligned with the military.

### 14 POLITICAL PARTIES

Elections to the National Assembly were first held in 1947. In the elections of 4 May 1958, the Pathet Lao's newly organized National Political Front (Neo Lao Hak Xat) won 9 of the 21 seats in contention; 4 were won by the Santiphab faction, a neutralist group allied with them, and 8 were obtained by the Nationalist and Independent parties. After the elections, the Nationalists and Independents combined to establish a new political party, the Rally of the Lao People (Lao Luam Lao), which held 36 of the 59 Assembly seats. The remaining 23 seats were divided among the National Political Front (9), the Santiphab grouping (7), the Democrats (3), the National Union (2), and unaffiliated deputies (2). The leaders of the Rally, upon formation of that party, announced its purpose to be the defense of Laos against "an extremist ideology contrary to the customs and traditions of the Lao country" and the establishment of true unity and independence of the nation against "subversion from within and without." The Front then and later called for a reduction in the size of the armed forces and of US military aid. In December 1959, because of emergency conditions, election of new Assembly deputies was postponed until April 1960. When the balloting was finally held, the opposition Committee for the Defense of the National Interests won a landslide victory. The Committee leader, Phoumi Nosavan, then formed a new political party, the Social Democrats (Paxa Sangkhom).

In August 1960, a coup led by Kong Le brought down the government. After a period of struggle, Souvanna Phouma, who had earlier established the Neutralist Party (Lao Pen Kang) in order to build a broader popular following, became prime minister on 11 June 1962. In his 19-man cabinet, 4 posts were held by right-wing politicians, 11 by Neutralists, and 4 others by Pathet Lao adherents. The National Assembly came to the end of its five-year term in 1965. Political instability prevented the holding of national elections, and a provisional assembly was convened to amend the constitution so as to provide a means for maintaining the legislature. The result was a general election held on 18 July, with the franchise limited to civil servants, teachers, merchants, and village headmen. The new National Assembly was convened on 16 August, with the Neutralists retaining 13 seats, the Social Democrats 11, the Rally 8, and various independents 27. The endorsement gained in the limited polling of 1965 was not sufficient to sustain Prime Minister Souvanna Phouma for long, and new voting—the first real and effective election in a decade—took place on 1 January 1967. About 60% of 800,000 eligible voters went to the polls in 1967, despite the Pathet Lao charge that the balloting was illegal. Souvanna Phouma's United Front took 32 of 59 seats in the National Assembly voting.

In the last years of the constitutional monarchy, the gulf between the Pathet Lao and the enclave of rightists and neutralists that held governmental power widened appreciably. The pressures of war—both the civil strife within Laos and the



larger conflict pressed by the external forces of the United States and the DRV—had thwarted the effectiveness of normal political processes. General elections held on 2 January 1972 were confined to government-controlled areas, with representatives for the Pathet Lao provinces elected by refugees from those regions. Despite the narrow range of political choices available to voters, only 20 of the 60 National Assembly deputies were reelected, reflecting a growing uneasiness both with the war and with the increasing evidence of corrupt practices among government officials. Despite right-wing pressures from within the National Assembly, Souvanna Phouma—whose neutralist policy was favored by both the United States and the DRV—retained the position of prime minister. The withdrawal of US military support for the Thieu regime in the Republic of Vietnam (South Vietnam) was followed, in April 1974, by the creation of a new coalition in Vientiane that gave equal political footing to the Pathet Lao. The National Assembly, which had become little more than a forum for disputes among right-wing factions, was dissolved by King Savang Vatthana on 13 April 1975, an act that signaled the end of domestic political opposition to the inexorable progress of the Pathet Lao.

The formation of the Lao People's Democratic Republic in December 1975 effectively established the Communist Lao People's Revolutionary Party (LPRP) (Phak Pasason Pativat Lao), the political incarnation of the Pathet Lao movement, as the sole political force in Laos. Kaysone Phomvihane, general secretary of the LPRP, was named head of government, and Prince Souphanouvong head of state. The LPRP plays the leading role in the Lao Front for National Reconstruction, which sought to promote socialism and national solidarity. The Third Party Congress of the PPPL, and the first since the party assumed control, was held in Vientiane in April 1982. The congress, whose 228 delegates represented a party membership of 35,000, elected an enlarged Central Committee with 49 full and 6 alternate members. The Central Committee reelected Kaysone as general secretary. The Fourth Party Congress, held in Vientiane in December 1986, established the "new economic management mechanism."

In 1988 the Supreme People's Assembly (SPA) adopted new elections laws and elections were held the next year—the first since 1975. In 1991, the Fifth Party Congress changed Prime Minister Phomvihane's title to president, a post he held until his death one year later. Elevated to the post of prime minister was Khamtai Suphandon, a generally pro-free market antidemocratic pragmatist of the Singaporean variety. Suphandon had for a time studied Marxism in Hanoi, but in his position as prime minister was considered essentially a transitional figure between the old guard and a new generation of leaders. After Phomvihane's death in 1992, a special session of the SPA elected an old-guard communist, Nouhak Phoumsavan, to the presidency.

Elections for the SPA were again held in 1992 but they were marred by the sentencing of three pro-democracy activists to 14 years in prison on the day before balloting. By 1996, Laos' leadership was made up primarily of party functionaries, regardless of the makeup of the SPA. Prime Minister Suphandon held considerable power as did Deputy Prime Minister Khamphoui Keoboulapha, who also served as the administrator of the State Committee for Planning and Cooperation (CPC), considered by many analysts to be a government within a government.

A 1998 election retrenched the hard-liners, as "technocrats" vanished from the pre-approved slate, replaced with old style LPRP functionaries. This was viewed as a reaction to the social tensions (such as crime and corruption) arising with economic openness, as well as an attempt to reestablish centralized control over provincial matters.

The Seventh Party Congress, which took place in March 2001, re-elected all eight surviving members of the nine-member

Politburo. The decision was a clear sign that the party had opted for continuity rather than change.

Several governments-in-exile have been set up by former ministers of pre-1975 regimes, and overseas Hmongs and other dissidents have formed opposition organizations. A young pretender to the throne, Prince Soulivong Savang, has rallied support in exile. Some Hmong groups and others continue a low-level insurgency in rural Laos. Underground antigovernment sentiment may be on the rise among the urban intellectuals.

As of early 2003, parties other than the LPRP continue to be proscribed. A glimpse of popular discontent emerged with reports of an October 1999 demonstration in Vientiane, led by students and professors calling for democracy and human rights. The protest was quickly suppressed, and Khamtai's government disavowed all knowledge of its occurrence.

## 15 LOCAL GOVERNMENT

Laos consists of 16 provinces (*khoueng*), one special zone, Xaisomboun, and the municipality of Vientiane. The provinces are subdivided into districts (*muong*), townships (*tasseng*), and villages (*ban*). The president appoints provincial governors and mayors of municipalities. The prime minister appoints deputy provincial governors and deputy mayors and district chiefs. Since 1975, local administration has been restructured, with elected people's committees in the villages functioning as basic units. Both suffrage and candidacy are open to citizens 18 and over. Village heads administer at the village level. Lack of control over local party members in the rural areas appears to be a source of worry for the politburo, with its implications of corruption and even potential unrest.

## 16 JUDICIAL SYSTEM

The 1991 constitution provides for freedom of speech, assembly, and religion, although, in practice, organized political speech and activities are severely restricted. The reality of religious freedom is equally illusory, with imprisonment of Christian activists in recent years. The constitution contains provisions designed to guarantee the independence of judges and prosecutors, but in practice the courts appear to be subject to influence of other government agencies. Provincial courts are at the next level as appellate courts. There is also a central supreme court in Vientiane. In 1993 the government began publishing an official gazette in which all laws and regulations are disseminated. A bar association was formed in 1996 to strengthen the legal profession and individual rights to counsel. Rising crime rates place a burden on Laos's under-funded and understaffed legal system.

## 17 ARMED FORCES

In 2002 the armed forces in Laos numbered 29,100. The army of 25,000 was equipped with 25 main battle tanks. The army marine section, equipped with 16 patrol crafts, had 600 personnel. The air force, with 3,500 personnel, was equipped with antiaircraft missiles and 24 combat aircraft. Militia self-defense forces numbered approximately 100,000 organized for local defense. The armed forces faced about 2,000 rebels from the United Lao National Liberation Front (ULNLF). Defense expenditures in 1998 were \$55 million.

## 18 INTERNATIONAL COOPERATION

Laos, a UN member since 14 December 1955, belongs to ESCAP and all the nonregional specialized agencies except IAEA and IMO. The nation participates in the Asian Development Bank and G-77, is a signatory to the Law of the Sea, and has observer status with the WTO. Since 1961, it has been a member of the nonaligned movement. Laos's main diplomatic, economic, and military allies have been Vietnam and the former USSR. In 1977, Laos signed a 20-year treaty of cooperation with Vietnam. A four-year agreement with Vietnam and Cambodia that pledged

cooperation in regulating forestry, processing agricultural goods, producing consumer goods, and increasing trade was signed in 1986. In 1997, Laos joined ASEAN and AFTA.

## 19 ECONOMY

One of the world's poorest and least-developed nations, Laos is overwhelmingly agricultural, with 85% of the population still engaged in subsistence farming. Because industrialization is minimal, Laos imports nearly all the manufactured products it requires. Distribution of imports is limited almost entirely to Vientiane and a few other towns, and even there consumption is low. The hostilities of the 1960s and 1970s badly disrupted the economy, forcing the country to depend on imports from Thailand to supplement its daily rice requirements.

With the curtailment of hostilities in 1975, the development of a unified political structure offered an immediate advantage. The government began in late 1975 to pursue in earnest a variety of projects to repair and improve the infrastructure and make use of the country's ample mineral, lumber, and hydroelectric resources. During 1978–80, the government gave priority to postwar reconstruction, collectivization of agriculture, and improvements in rice production. In 1994 a liberalized Foreign Investment Law was promulgated as the government sought greater economic integration regionally and internationally.

By 1997, Laos had made modest improvements. In international investment, it had opened up its economy considerably. In April 1997, the government signed a trade and cooperation agreement with the EC. In July 1997, Laos became a full member of ASEAN and AFTA. In 1998 the government applied for membership in the WTO. More than \$5 billion in foreign investment had been made by more than 500 investors, mainly from other ASEAN countries. The government had also made considerable progress in the construction of a modern road network linking Laos to China and Vietnam. The country also announced plans for a second bridge into Thailand and the construction of its first railroad, linking Vientiane with Nong Khai in Thailand.

However, the Asian financial crisis dealt the economy a series of blows from which it has not yet recovered. Laos's economy was particularly dependent on Thailand, source of 42% of its foreign investment as well as 45% of imports and 37% of export purchases, which was severely affected by the financial crisis. From June 1997 to June 1999, the Laotian currency, the kip, lost 87% of its value. Growth, which averaged 7% for the six years 1992 to 1997, dropped to 4.8% in 1998, the lowest since 1991. Foreign investment dropped from \$179 million in 1996 to \$45.3 million in 1998. Growth increased in 1999, to 7.3%, propelled by growth of over 8% in both industry and agriculture, and continued at moderated rates of 5.7% and 6.4% in 2000 and 2001. However, high inflation rates and low declining foreign investments have persisted. Inflation in 2000 was 25% and though it eased to 10% with lower growth in 2001, it was back to double digits, 12% in 2002 and a projected 15% in 2003. Foreign direct investment dropped to \$23.9 million in 2001. By late 2002, the kip had fallen to more than 10,000 to 1 US dollar from its level of 1,171 to 1 US dollar in June 1997. In February 2003, the Bush administration submitted legislation supporting the granting of normal trade relations (NTR) to Laos.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Laos's gross domestic product (GDP) was estimated at \$9.2 billion. The per capita GDP was estimated at \$1,630. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2001 was 10%. 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 53% of GDP, industry 22%, and services 25%. Foreign aid receipts amounted to about \$45 per capita and accounted for approximately 15% of the gross national income (GNI).

The richest 10% of the population accounted for approximately 30.6% of household consumption and the poorest 10% approximately 3.2%. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that in 2001 about 40% of the population had incomes below the poverty line.

## 21 LABOR

The estimated labor force was 2.4 million in 1999. In the absence of additional data, it is estimated that 85% are subsistence farmers, with most of the remainder in the public sector as of 1997. In that year the unemployment rate was approximately 5.7%.

Labor is organized into a single Federation of Lao Trade Unions (FLTU) which is controlled by the Lao People's Revolutionary Party (LPRP), the authoritarian governmental body. In 2002, the vast majority of the 78,000 members of the FLTU were in the public sector. There is no right to organize, strike, or bargain collectively. Labor disputes have so far been infrequent and the desperate economic situation means that workers have little bargaining power.

Children under the age of 15 are forbidden by law from working, but many children work for their families in farms or in shops due to extreme economic hardship. The daily minimum wage was \$.53 in 2002. The labor code limits the workweek to 48 hours with at least one day of rest.

## 22 AGRICULTURE

In 1998, Laos's sown-field area was estimated at 852,000 hectares (2,105,000 acres), or less than 4% of the country's total area. Agriculture accounts for 53% of production and as much as 85% of employment. The main crop is rice, almost entirely of the glutinous variety. Except in northern Laos, where some farmers grow dry rice in forest clearings or on hillsides, most Lao are wet-rice farmers. The total area of rice plantings in 1999 was estimated at 718,000 hectares (1,774,000 acres), up from 554,000 hectares (1,369,000 acres) in 1996. Yields, which are relatively low, could be raised substantially through wider use of irrigation and fertilizers. Production, which averaged 609,000 tons annually during 1961–65, rose to 2,103,000 tons in 1999. Less important crops include corn (favored by some upland tribes and stressed by the government as a means of increasing livestock production), manioc, peanuts, and soybeans. The main commercial crops, emphasized by the government as part of its export drive, are coffee, cotton, and tobacco. Also grown are cardamom, tea, ramie, hemp, sugar, bananas, and pineapples. In 2001, the trade deficit for agricultural products was \$41 million. The mountain peoples have been known to grow large quantities of opium poppies, sold to dealers in the plains. Opium production was estimated at 200 tons in 2001.

## 23 ANIMAL HUSBANDRY

Cattle raising is important, especially in the southern plains and in the valleys of the Noy, Banghiang, and Don rivers. Much of the livestock population was killed in the final stages of the civil war that ended in 1975. As of 2001, livestock included an estimated 1,217,000 head of cattle, 1,051,000 buffalo, 1,426,000 hogs, and 14,063,000 chickens. Livestock products in 2001 included 35,000 tons of pork, 24,000 tons of beef and veal, 13,000 tons of poultry, and 10,500 tons of eggs.

## 24 FISHING

Edible fish, found in the Mekong and other rivers, constitutes the main source of protein in the Laotian diet. The prize catch is the pa beuk, weighing 205 kg (450 lb) or more. Despite the abundance of fish and their important contribution to the Laotian subsistence economy, there has been no systematic commercial fishery development. The total catch in 2000 was 29,250 tons.

## 25 FORESTRY

Timber is a major resource and one of Laos's most valuable exports. About 54% of the total area is forested, and about half of the forested area is commercially exploitable. The principal timber-producing areas are around Champasak, Savannakhet, Khammouan, and Vientiane. Muang Paklay, in western Laos, is noted for its teak. Exploitation is easiest in areas near the Mekong River, which facilitates transportation. Elephants and oxen are used in most forestry operations. Aside from timber, firewood, and charcoal, forestry products include benzoin and benzoin bark, bamboo, copra, kapok, palm oil, rattan, various resins, and sticklac. Production of roundwood totaled an estimated 5.5 million cu m (194 million cu ft) in 2000; over 80% of the annual output is burned as fuel. Sawn wood output in 2000 was about 350,000 cu m (12.4 million cu ft); wood-based panels, 125,000 cu m (4.38 million cu ft).

## 26 MINING

Tin and gypsum mining were the country's leading industries in 2002, and tin was its fifth-leading export commodity. The mining sector, the economy's smallest, contributed 0.56% of the country's GDP in 2000. Although much of the country remained unprospected, the nature of the terrain has led to ardent speculation about the nation's mineral resources. Laos was fairly rich in gold, gypsum, iron ore, limestone, potash, precious stones, and tin; of those, only gypsum, limestone, and tin were mined. Also produced in 2001 were barite (all of which was exported to Thailand), cement, gemstones, rock salt, sand and gravel, varieties of stone, and zinc (all of which was exported to Thailand). Other mineral resources known to exist in Laos were magnesium, antimony, copper, lead, manganese, pyrites, silver, and sulfur. Copper, gemstone, gold, iron ore, lead, potash, tin, and zinc were earmarked for further exploration. Undiscovered resources of iron ore, potash, and rock salt were believed to be substantial.

Tin mine output in 2001 was 400 tons, down from 717 in 1997 and 906 in 1996. Gypsum production, by the State Gypsum Mining Operation from the Dong Hene Mine, in Savannakhet Province, was 150,000 tons in 2001, up from 114,306 in 1997; the mine's proven ore reserves were estimated to be 18 million tons. Gold production ceased in 1998–2001; it was 24,755 grams in 1997. Important iron deposits, with reserves of 68% ore estimated at 11 billion tons, have been discovered on the Plain of Jars near Xiangkhoang. A substantial deposit of low-grade anthracite coal has been found at Saravan. Sapphire production went from 4,006 carats in 1996 to 9,229 carats in 1997, and increased substantially further in 1998 and 1999. Output of gemstones went from 4,013,280 carats in 1999 to 100,000 in 2001. Tungsten and copper deposits and gold-bearing alluvials produced a limited income for the local population but have not been exploited by modern industrial methods.

## 27 ENERGY AND POWER

In 2001, Laos had a total installed electrical generating capacity of 425,000 kW, up from 225,000 kW in 1988. Production of electricity in 2000 totaled 1,000 million kWh (up from 532 million in 1988), of which 98% was hydropower and the remainder from conventional thermal sources. Consumption of

electricity in 2000 was 690.6 million kWh. The nation has an estimated hydroelectric potential of 12,500,000 kW, most of which is undeveloped. The largest power project is the Nam Ngum Dam, located on the Mekong 72 km (45 mi) from Vientiane. Construction began in 1969, with the first stage completed in 1971 and the second stage in 1978. Annual output at Nam Ngum is around 900 million kWh, with about 90% of the electricity produced being supplied to Thailand. An additional 3,000 kW of capacity comes from several smaller hydroelectric facilities, and about 14,000 kW is provided by diesel-powered generators throughout Laos.

## 28 INDUSTRY

Industrial development is rudimentary. There are some small mining operations, charcoal ovens, a cement plant, a few brick works, carpenter shops, a tobacco factory, rice mills, some furniture factories, and more than two dozen sawmills. Industrialization plans center on cotton spinning, garment manufacturing, hydroelectric power projects, brewing, coffee and tea processing, and plywood milling. New resource developments, including the Nam Ngum hydroelectric project and the Vientiane sylvite field, have aided industrial growth. Handicrafts account for an important part of the income of many Laotians. Some villages or areas specialize in certain types of products: silk fabrics, baskets, lacquerware, and gold and silver jewelry and ornaments. Bricks, pottery, iron products, and distilled beverages are made in individual villages. Manufacturing is largely confined to the processing of agricultural—food and natural fibers—and forestry products.

From 1998 to 2001, industry grew at an average annual rate of 8.7%. The growth is in large part attributable to government-sponsored construction projects, particularly hydroelectric power projects. By 2002, hydroelectric power had taken the place of garments as the country's leading industrial export, and its leading source of foreign exchange. Most manufactures, however, continue to be imported; exports regularly only amount to 60% of imports. At the end of 2002 the main industrial project under consideration was the construction of the \$1.3 billion hydroelectric dam on the Nam Theum River, the power from which would be exported to Thailand. The project was far from realization, lacking both a purchase agreement with the state agency in Thailand, and the World Bank guarantee for the investors.

## 29 SCIENCE AND TECHNOLOGY

Like many developing nations, Laos depends primarily on external expertise in science and technology. Sisavangvong University, founded in 1958 at Vientiane, has faculties of agriculture, forestry, and irrigation, and of medicine, a technical college, and a polytechnic. Regional technical colleges are located in Luang Pradang, Savannakhet, and Champasak. In 1987–97, science and engineering students accounted for 20% of college and university enrollments.

## 30 DOMESTIC TRADE

Before the Pathet Lao came to power, there was a growing market in Laos for capital and consumer goods. Vientiane was the wholesale distributing point for much of the country. In late 1975, private trade was banned and many small traders and businessmen—including Chinese, Japanese, Pakistani, Thai, and Vietnamese—fled the country. The new government subsequently made it clear that the trend toward consumerism would be reversed in favor of a production-oriented society. The Pathet Lao entered directly into the distribution and sale of essential commodities, such as rice and sugar, and prices were brought under control. In 1979, however, the ban on private trade was lifted, and consumer items, which had all but disappeared from circulation, were once again available.

In the countryside, barter replaces money as the principal method of exchange. Markets are held at regular intervals, generally one day a week, at central villages or smaller towns. Once or twice a year, lowland farmers barter cloth and handicraft products with the mountain peoples for cereals, deer and rhinoceros horns, and ivory. Certain items recognized as media of exchange include tea, opium, tobacco, salt, silver, and gold. As of 1999, subsistence farming accounted for about 51% of the GDP, employing about 85% of the nation's workforce.

The New Economic Mechanism (NEM), a set of economic reforms instituted in 1986 across all sectors of the economy, has begun to demonstrate results in establishing a market-based economy. The government freed the market price of rice and other food staples in 1986, increasing agricultural output despite severe climatic conditions. Later reforms—floating the national currency, the kip, and freeing interest rates—stimulated a market-based economy and controlled inflation. Major land reforms in 1988 included the freedom to sell products at market-determined prices. Growth from these stimuli is demonstrated by the doubling of private shops in Vientiane and abundant fairly-priced goods in the markets. In a 1989 agreement with the World Bank and the International Monetary Fund, the government initiated reforms toward privatization and monetary reforms.

The usual hours of business are from 8 AM to 4 PM, Monday through Friday. Some factories and private companies extend the workday to 5 PM and factories are permitted to maintain a six day workweek if desired. Banking hours are 8 to 10:30 AM and 2 to 3:30 PM, Monday–Friday.

### 3<sup>1</sup> FOREIGN TRADE

The political reorganization of 1975 brought changes in Laos's foreign trade pattern, because regional alignments were shifting and because the aid needed to finance the nation's imports was no longer available from the US. In the 1980s, much of the nation's trade was subsidized by the former USSR. The export of electricity, the sale of overflight rights to foreign airlines, wood products, green coffee, and tin are sources of foreign earnings. In 1991 Laos's largest export earner, logging, was banned pending steps to prevent further destruction of the forests. There are 11 million ha of mature forests in Laos, and about 4.4 million are considered commercially exploitable. The ban on log exports was modified to allow the export of already cut logs and logs from stipulated cutting areas. Foreign aid grants exceeded export earnings in 1991. That year, export revenue decreased by 22% from 1990 because of a reduction of timber exports and a decline (caused by drought) in the production of electricity for export. At the same time the cost of imports increased by 62%, owing to the newly adopted free trade measures, which ended restrictions on imported goods.

In 2000, major exports included wood products, garments and textiles, fish, and iron and steel. Major imports include machinery and equipment, vehicles, and fuel.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Thailand	72.1	419.0	-346.9
France	27.1	27.5	-0.4
Germany	21.4	4.2	17.2
United Kingdom	14.6	11.6	3
Belgium	14.3	n.a.	n.a.
Japan	11.7	27.4	-15.7
Italy	9.2	n.a.	n.a.
China (inc. Hong Kong)	6.7	37.9	-31.2
Singapore	n.a.	36.0	n.a.
Vietnam	n.a.	33.9	n.a.

### 3<sup>2</sup> BALANCE OF PAYMENTS

Laos has experienced severe trade deficits since independence. From 1963 through mid-1975, substantial deficit financing was provided through the Foreign Exchange Operations Fund (FEOf), an agency backed largely by the US but also receiving funds from Japan, France, the UK, and Australia. In June 1975, the flight of gold and hard currencies from the country forced the government to ban exports of gold and silver bullion. A devaluation of the kip had the effect of further inflating its price, with the black market exchange rate soaring. In the 1980s, financing came mainly from the former USSR, with smaller amounts from multilateral agencies. Since the collapse of communism in Europe, Laos has lost this vital means of support. Even with its recent attraction of international investment (\$5 billion from 1988–94), it still relies heavily on aid. Primary sources are Scandinavia, the US, and Japan. In 1995, the IMF announced a \$17 million loan to the country, its second in a series of structural adjustment loans. Laos received a total of \$290 million in economic aid in 1998. Total external debt stood at \$2.53 billion in 1999. In 2001, the IMF approved a \$40.2 million three-year arrangement with Laos, to reduce poverty and support the government's economic reform program. The Lao government is attempting to diversify its trading and investment partners, particularly among other Asian nations.

The International Monetary Fund (IMF) reports that in 2001 Laos had exports of goods totaling \$311 million and imports totaling \$528 million. The services credit totaled \$166 million and debit \$32 million. The following table summarizes Laos's balance of payments as reported by the IMF for 2001 in millions of US dollars. The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Laos's exports was \$325 million while imports totaled \$540 million resulting in a trade deficit of \$215 million.

<b>Current Account</b>	-82
Balance on goods	-217
Balance on services	135
Balance on income	-34
Current transfers	34
<b>Capital Account</b>	...
<b>Financial Account</b>	136
Direct investment abroad	...
Direct investment in Laos	24
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	25
Other investment liabilities	87
<b>Net Errors and Omissions</b>	-57
<b>Reserves and Related Items</b>	4

### 3<sup>3</sup> BANKING AND SECURITIES

The central bank, the Bank of the Laotian People's Democratic Republic, regulates a rapidly expanding sector comprising 13 national and foreign-owned banks under the terms of the Commercial Bank and Financial Institutions Act of January 1992. Most of the wholly foreign-owned banks are Thai (such as the Thai Military Bank and Siam Commercial) and many of the joint-venture banks are backed by Thai financiers (such as the Joint Development Bank). The central bank continues to receive technical assistance from multilateral lending agencies, and is gradually strengthening the prudential framework. The banks are now believed to be more efficient. The largest commercial bank, established in 1953, is the Bank of Indochina.

The large-scale flight of foreign currency that accompanied the Pathet Lao's ascendancy to power led the new government to shut down Vientiane's banks in September 1975. Officials subsequently announced the expropriation of most private

accounts, claiming they were the property of former rightists and "traitors."

Banking reforms of the 1988-89 period opened Laos to foreign banks. Banks in Laos include: Banque Pour le Commerce Exterieur Lao, Joint Development Bank, Nakhonelouang Bank, and the Vientiane Commercial Bank.

All banks now provide basic business services and offer a range of deposit and credit facilities. Interest rates are increasingly responsive to market conditions but tend to remain close to rates set by the central bank. Public confidence in the banking system as measured by the level of domestic capital mobilization is still low. Until 1988 the wholly state-controlled system serviced the needs of the command economy, offering uncompetitive rates of interest to savers or producers in need of regular credit. Most families continued to save by investing in gold and jewelry. The system suffered severe liquidity problems in 1990-91 when the "privatization" of former state-owned enterprises was at its peak: old debts were not repaid and new capital arriving as a result of the opening of the economy to foreign investors was coming in too slowly. Laos was badly hit in 1997 by the Asian financial crisis, leading to further liquidity problems in 1998. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$41.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$286.4 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 35%.

There is no stock exchange.

### 34 INSURANCE

There are no private insurance firms.

### 35 PUBLIC FINANCE

The civil war rendered normal budgetary procedures impossible, the budget being covered largely by US aid and monetary inflation. Deficit financing continued in the 1970s and 1980s, covered mostly by foreign aid from communist nations. With the collapse of this support, however, Laos has increasingly looked to foreign investment capital and Western lending agencies for financial support. Beginning in 1994, the IMF initiated an annual program of loans to assist the country with a structural adjustment program. It lent Laos \$17 million in 1995. Still, 31% of the 1995 budget was international aid.

The US Central Intelligence Agency (CIA) estimates that in 1998/1999 Laos's central government took in revenues of approximately \$211 million and had expenditures of \$462 million. Overall, the government registered a deficit of approximately \$251 million. External debt totaled \$2.5 billion.

### 36 TAXATION

In 1977, the government introduced a progressive agricultural tax on production. The tax revenues were to be used to develop forestry and mining without the need for outside aid, but the tax had the unwanted side effect of discouraging production by some of the largest landowners and slowing the achievement of self-sufficiency in food. The 1992-93 budget included a new profits tax and a law requiring foreign firms engaged in construction projects to pay taxes. The agricultural tax was replaced by a land tax, and consumption taxes were raised on fuel oil, liquor, beer, and tobacco. The 1989 economic reforms included a new flat tax rate of 20% on profits for foreign-owned companies. The top personal income tax rate is 40% with the marginal rate for the average tax payer 10%. The top corporate tax rate is 35%.

### 37 CUSTOMS AND DUTIES

Import duties are determined on a specific and ad valorem basis and range from 2-40%, mostly not exceeding 25%.

Compensatory duties are imposed on imports of commodities in competition with local goods. A general internal tax is collected on the CIF-plus-duties value of most imports. Certain commodities—including automobiles, radios, alcoholic beverages, tobacco, and sugar—are subject to special excise taxes of up to 104%. A duty-free unloading zone for Laotian imports is located in the Vietnamese port of Da Nang.

### 38 FOREIGN INVESTMENT

Before 1975, Laotian foreign economic relations were conducted under the FEOF and the US Commodity Import Program, under which dollar exchange was provided; Laos in turn allocated dollars to local importers, who then made kip payments to the government for the purchase of foreign goods. There was little direct foreign investment, however. From 1975 until the mid-1980s, all foreign capital has come in the form of development assistance.

Reforms, as part of the New Economic Mechanism (NEM) initiated in 1986, included the introduction of a the Laos Foreign Investment Code and Decree in 1989, which established the Foreign Investment Management Cabinet (FIMC). The FIMC oversees the Committee for Investment and Foreign Cooperation (CIFC) with power to authorize and approve investment. All investment proposals, no matter how small, must be submitted to the CIFC of the FIMC, which passes it for screening by the relevant line ministries. The Code and Decree focus on three types of transactions: contractual business, joint ventures, and wholly foreign-owned enterprises. Investment is now allowed in the areas of agriculture, forestry, industry, communications, transport, service, and tourism, for projects using the indigenous raw materials and natural resources of Laos. The Decree details the permitted sectors of foreign investment and outlines restrictions and prohibitions. For instance, environmentally damaging investment, investors with overwhelming debt, long-term projects making great use of imported materials, and enterprises that would compete with local entrepreneurs are prohibited and/or discouraged. Hindrances to foreign investment are poor legal and physical infrastructure and a lack of skilled labor and capital. Additional disadvantages in the landlocked country are high transportation costs and limited domestic and foreign markets. In 1994 a new foreign investment law streamlined regulations and tax structures and included a flat corporate tax rate of 20%. The contractual business mode of foreign investment was eliminated. Although the law stipulated that the pre-approval process for new investment was to take only 60 days, delays in fact have been a year or more.

Since 1986, foreign investment in Laos has totaled an estimated \$5.7 billion, about 75% in hydroelectric power projects. The Asian financial crisis, precipitated by Hong Kong's return to Chinese rule in June 1997, dealt foreign investment flows a blow from which it has not recovered. FDI fell from \$170 million in 1996 to \$45.3 million in 1998. In 1999, the Thai company that had been granted the concession to build Laos's first railroad in May 1997, backed out of the deal declaring it economically non-viable. A small uptick in FDI to \$51.5 million in 1999 was followed by sharp declines in \$33.9 million in 2000 and a negligible \$23.9 million in 2001 in the face of the continuing depreciation of the currency. The depreciation feeds into a vicious cycle, because with the government's need to conserve its hard currency reserves, it has become increasingly difficult for foreign investors to convert their kip income into foreign exchange. The government in 2002 was rationing foreign exchange, with priorities given to fuel, food and medicines.

Thailand has been Laos's biggest foreign investor, accounting for about 42% of total FDI. In 2001, Laos and Thailand signed an agreement for the construction of a second bridge across the Me Kong, a project abandoned by a Japanese company in 1998 after the concession had been granted in 1996. Two Thai

companies are also shareholders in the proposed \$1.2 billion 650 MW Nam Theum River hydroelectric power project. The other partners are the Laotian government and the French company, Electricite de France, the largest shareholder. China's Yunnan Province contracted to develop sylvite deposits in the Vientiane Basin. Twelve sylvite-bearing zones have been identified, with an estimated total of 10 billion tons.

### 39 ECONOMIC DEVELOPMENT

The National Plan and Foreign Aid Council was established in June 1956 to prepare a general plan for the development of Laos and to set up a series of five-year plans. In view of its limited capital resources, the government sought increased private foreign investment, continued US governmental economic assistance, and help from international monetary bodies and the Colombo Plan organization. An economic plan drafted by the Laotian government in 1962 was never fully implemented, however, owing to internal instability. Little of the infrastructure for public works, industry, and mining that was abandoned in 1961 has been resumed. Although a major goal of the 1969–74 economic and social development plan, completion of the Nam Ngum Dam, was fulfilled, a host of other targets had to be abandoned because of disruption stemming from the war. US aid to Laos began in 1955 and continued until the US pullout in 1975. During this period, the Laotian economy became almost totally dependent on US aid, which amounted to over \$900 million in nonmilitary loans and grants and \$1.6 billion in military assistance.

Following the Pathet Lao takeover in 1975, efforts were made to restructure the Laotian economy along socialist lines. The source of most foreign assistance shifted to China between 1975 and 1979. By 1979, however, with the economy reduced to a virtual standstill because of poor harvests, rapid inflation, and the absence of private incentives, the government abandoned central planning for a mixed model of a centrally coordinated amalgam of state-run enterprises, cooperatives, and private ventures.

Laos's first five-year plan (1981–85) after the removal of the Pathet Lao government envisioned increases of 65–68% in the gross social product, 23–24% in agricultural production, and 100–120% in industrial production, as well as completion of repairs on major highways and waterways. During this period the source of aid again shifted, this time to the USSR, Vietnam, and their allies. Aid from Council for Mutual Economic Assistance (CMEA) countries totaled \$90 million in 1985. Among non-Communist nations, Japan, Australia, Sweden, and the Netherlands have also furnished assistance. In 1985, the US ban on aid was lifted, largely because of Laotian cooperation in accounting for US military personnel missing in action in Laos during the Vietnam war. Aid from international agencies totaled \$183.1 million between 1946 and 1986.

The targets of for the first five-year plan were largely not met as per capita income fell to \$100 and inflation rose to 30% in 1985. Failure was ascribed to an overly rigid central planning approach and in August 1986, as a major part of the second five-year plan (1986–90), the New Economic Mechanism (NEM) was introduced. The New Economic Mechanism (NEM) approved in 1986 (based on *chin tanakan may*, "new thinking,") introduced free enterprise initiatives including decentralized decision making, deregulation of pricing and financial systems, and promotion of domestic and international trade and foreign investment. Reforms have been introduced in phases. In 1988 land use reforms and market determined prices were introduced. In 1989 the tax system was modified, the Foreign Investment Code and Decree was implemented, the banking system was restructured, and the privatization of state economic enterprises commenced. Creation of a national taxation system and a customs administration are aimed at increasing government revenue. The Ministry of Industry and Primary Resources, the Economic

Planning Unit, which monitors existing and new businesses, and the Economic Development Board (EDB), which assists in the establishment of new industries, facilitate foreign investment in most sectors of the economy. Incentives offered to encourage the development of industrial and commercial enterprises include allowing 100% foreign ownership, emphasized exportation of food products, strengthening of economic management, rehabilitation of routes to seaports and rural feeder roads, reform of general education and training, and development of small- and medium-scale projects.

The third five-year plan (1991–95) continued previous policies of infrastructure improvement, export growth, and import substitution. Four sectors were considered priority areas for future income for Laos: mining and energy; agriculture and forestry; tourism; and service, as a way-station and service center between China, Vietnam, and Cambodia. Laos has untapped mineral resources and proven reserves of gold, gemstones and iron ore. Pulp and paper tree plantations would be substituted for the export of timber and agricultural products to serve the Thai market. Based on Thailand's experience, the government recognizes that mass tourism involves environmental degradation, yet the opening of the Mittaphap (Friendship) Bridge over the Mekong between Laos and Thailand (1994) seemed to open an opportunity for both trade and tourism. A second bridge was approved in 1996 but the Japanese company holding the concession backed out in 1998. In 2002 the second bridge project was revived with an agreement with a Thai company. In 1993 three western oil companies, Enterprise Oil and Monument Oil, both from the UK, and Hunt Oil of Dallas, engaged in exploration for oil and gas in Laos. These projects, handicapped by inadequate geological maps, unexploded ordnance, tough terrain, encounters with the remnants of the anticommunist insurgency movement, tropical and dietary illness, and the potential expense of drilling and pipeline construction for transport to the Vietnamese coast, have not produced any substantial discoveries. However, two major hydroelectric projects, the Nam Thuen Dam on a tributary of the Mekong in Khammouan province, and the Xeset dam in southern Laos were completed, and produce electricity sold to Thailand.

At the sixth party congress, held in March 1996, Laotian officials debated the country's slow pace of opening up to the international investment community. By that year, the country had allowed more than 500 foreign investors, in a variety of sectors, to either establish or buy (in whole or in part) Laotian businesses. The majority of \$5 billion (75%) was invested in hydroelectric power. In February 1997, Laos joined ASEAN, though some raised questions about its ability to afford even to attend all the organization's 200 or so annual meetings. Balance of payments problems had emerged almost as soon as the economy opened up to foreign trade and investments, with imports regularly running about 40% above exports. By 1997, Laos had entered into two stand-by arrangements with the IMF, a one year arrangement under the Structural Adjustment Facility (SAF), and a three year arrangement under the Extended Structural Adjustment Facility (ESAP). The credit line for the ESAP arrangement amounted to about \$49 million and ran until 7 May 1997. The next month Hong Kong returned to Chinese rule precipitating the Asian financial crisis that was to have devastating effects of Laos's economic development ambitions. From June 1997 to June 2002 the kip depreciated from 1,171 to more than 10,000 to one US dollar. Direct foreign investment (DFI) dropped from \$179 million in 1997 to \$23.9 million in 2001. In the first six months of 2002, investment flows from ASEAN countries, formally the source of the nearly 60% of FDI, fell to zero. A possibility of some relief from the downward spiral of inflation and dwindling investment lies in the likelihood that Laos will be voted normal trade relations (NTR) status in 2003 by the US Congress in line with legislation submitted by the Bush

administration in 2003. NTR would reduce US tariffs on Laotian imports from an average of over 40% to about 3%, and allow for the implementation of bilateral trade and investment agreement with the US. In turn, this would open the way for the World Bank to issue guarantees for foreign investment projects in Laos.

#### 40 SOCIAL DEVELOPMENT

By almost any measure, Laos is one of the world's most impoverished nations. Food intake does not meet basic requirements; there are virtually no sanitary facilities; and contamination of drinking water is widespread. Almost no families own cars, and bicycles and radios are considered luxuries. In general, the lowland Lao have the highest living standards, with lower standards prevailing among the upland tribes. The majority of the population engages in subsistence farming, and the country is heavily reliant on foreign aid.

Although the Constitution establishes equal rights for women, they have traditionally been subservient to men and have generally been discouraged from obtaining an education. However, the government claims that it has encouraged women to assume a larger role in national life, and girls are increasingly attending school. It has been reported that in urban areas, working women have higher incomes than their male counterparts. Violence against women, including domestic violence, is not widespread. The Family Code provides women with equal inheritance and marriage rights.

Minority highland tribes have limited ability to influence government decisions. The highland Hmong tribe, furthermore, reports instances of discrimination and harassment, including at least one disappearance of a prominent Hmong activist in 1993. The 1990 Law on Nationality, which took effect in 1994, grants greater citizenship rights to the Chinese and Vietnamese minorities.

In spite of the adoption of a Constitution in 1991 and National Assembly elections in 1993 and 1997, human rights abuses remain. Overt political dissent is not tolerated, and detention without due process is not uncommon. Prison conditions are harsh, and the government suppresses the freedoms of speech, assembly, and association and restricts freedom of religion.

#### 41 HEALTH

The use of Western medicine has improved health generally and reduced the incidence of malaria and smallpox specifically, but high infant mortality and a variety of health problems remain. Most urban areas, including Vientiane, lack pure water and sanitary disposal systems. In 2000, 90% of the population had access to safe drinking water and 46% had adequate sanitation. In parts of Laos, malaria—the most serious health threat—is known to affect the majority of children. In 1995, there were 1,365 new cases of cholera. Other health problems are acute upper respiratory infections (including pneumonia and influenza), diarrhea and dysentery, parasites, yaws, skin ailments, various childhood diseases, hepatitis, venereal disease, and tuberculosis. Common diseases in recent years have been malaria (41,787 cases in 1993), measles (3,174 cases in 1995), and leprosy (967 cases in 1995). In 1999, there were 171 reported cases of tuberculosis per 100,000 inhabitants. In the mid-1990s, a UNICEF survey found iodine deficiencies and goiter to be common problems in rural areas of Laos. Programs to increase iodine levels via salt intake were being instituted. An estimated 25% of school-age children were reported to have goiter. Children up to one year of age were vaccinated in 1990–94 against tuberculosis, 69%; diphtheria, pertussis, and tetanus, 48%; polio, 57%; and measles, 73%. Vaccination rates in 1999 were 56% for DPT and 71% for measles. The prevalence of underweight children in 1995 was 44%, greater than the average of developing countries in South East Asia.

As of 1999, there were an estimated 0.2 physicians and 2.6 hospital beds per 1,000 people. As of 1999 total health care expenditure was estimated at 2.5% of GDP. Average life expectancy in 2000 was estimated at 54 years for men and women; infant mortality was estimated at 92 per 1,000 live births. The total fertility rate has remained nearly constant over the last years. The fertility rate in 2000 was five children per woman during her childbearing years. The overall mortality rate in 2002 was estimated at 12.7 per 1,000 people; the maternal mortality rate in 1998 was 650 per 100,000 live births.

#### 42 HOUSING

The typical house is rectangular, built entirely of wooden planks and bamboo, with a thatched roof, and is raised off the ground on wooden pilings 1–2 m (3–6 ft) high. There is a critical housing shortage in the towns, and many dwellings are substandard. As of 1990, 47% of urban and 25% of rural dwellers had access to a public water supply, while 30% of urban and 8% of rural dwellers had sanitation service.

#### 43 EDUCATION

Education in Laos is compulsory for five years of primary education. In 1997, there were 7,896 primary schools with 25,831 teachers and 786,335 students. Student-to-teacher ratio stood at 30 to 1, and remained the same as of 1999. In 1996, secondary schools had 11,269 teachers and 169,691 students. As of 1999, 82% of primary-school-age children were enrolled in school, while 29% of those eligible attended secondary school.

In 1997 there were 1,369 teaching faculty and 12,732 students enrolled at all higher-level institutions. Sisavongvong University at Vientiane includes a school of education, a school of law and administration, a school of medicine, a school of vocational training, a school of agriculture, and a school of public works. There were also regional technical colleges and 63 teacher training colleges as of 1985. For the year 2000, adult illiteracy rates were estimated at 38.2% (males, 26.4%; females, 49.5%). As of 1999, public expenditure on education was estimated at 2.4% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The National Library (Vientiane), with 330,000 volumes in French, Lao, and English, is the nation's largest library. In addition, a Buddhist institute owns a number of classical manuscripts. Many excellent traditional works of art and architecture may be seen in Vientiane and Luangphrabang. Of particular interest in the latter city is the former royal palace and the Prabang (Golden Buddha), which was brought to Laos from Cambodia in the days of Fa-Ngoum. Also in Vientiane are the National Museum and the Museum of Religious Art.

#### 45 MEDIA

In 1997, there were 25,000 mainline telephones in use with an additional 4,915 cellular phones throughout the country. Beginning in 1992 telephone owners were able to direct dial internationally, and private facsimile machines were permitted.

All communications, including the radio network, are operated by the government. Regular radio broadcasts were begun from Vientiane in 1968 and are now carried by Lao National Radio. Most broadcasts are in Lao, but government news broadcasts are also in English, French, and other languages. Domestic television service from Lao National TV began in 1983; in addition, programs are available by satellite from the former USSR, and it is possible to pick up Thai broadcasts. As of 1999 there were 9 AM and 4 FM radio stations and 4 television stations. In 2000, there were 148 radios and 10 television sets for every 1,000 people. In 2001, there were 6,000 Internet subscribers served by one service provider.

The press is government-controlled. The sole news agency is the Laos News Agency; the only foreign news bureaus are those of the former USSR and Vietnam. As of 2002, there were two daily newspapers, *Vientiane Mai (New Vientiane)*, with a circulation of 2,500; and *Khao San Pathet Lao (Laos Newsletter)*, published in French and English as well as Lao, with a circulation of 1,200. *Pasason (The People)* is a monthly publication with a 2002 circulation of 28,000. The *Vientiane Times*, published in English is available twice a week.

Although there are constitutional provisions for freedom of speech and the press, the government is said to exert broad control over the exercise of these rights. All domestically produced newspapers, radio, and television are controlled by the Ministry of Information, which reacts harshly to expressions of political dissent.

#### 46 ORGANIZATIONS

The National Chamber of Commerce and Industry is located in Vientiane. The Lao People's Revolutionary Party and its allied social and political groups in the Lao Front for National Reconstruction have dominated Laotian life. The cooperative movement has been intensively developed. There is also a Lao Unified Buddhists' Association. The Red Cross is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

The Pathet Lao government has had little interest in tourism, and foreigners are rarely granted permits to travel outside Vientiane. Although individual tourist visas are difficult to obtain, the government's official tourist organization, Inter-Lao Tourisme, has been issuing growing numbers of visas to tour groups. The main tourist destinations are Vientiane, with its Buddhist pagodas, and the city of Luangphrabang at the junction of the Nam Khan and Mekong Rivers in the North.

In 2000, Laos recorded 737,208 visitor arrivals and receipts from tourism reached \$114 million. That year there were 7,333 rooms in hotels and guest houses and a total of 12,857 beds.

According to 2002 US government estimates, the cost of staying in Vientiane was about \$107 per day. Stays in other small towns may be as low as about \$30 per day.

#### 48 FAMOUS LAOTIANS

One of the most cherished figures in Laotian history is Fa-Ngoum, who unified Lan Xang in the 14th century. Another dynastic personage still revered is the monarch Sethathirat, in whose reign (1534–71) the famous That Luang shrine was built. Chao Anou (r.1805–28) is remembered for having fought a war

to recover Laotian independence from the Siamese (Thais) and for having restored Vientiane to a glory it had not known since the 16th century. Important 20th-century figures include Souvanna Phouma (1901–84), former prime minister; Prince Souphanouvong (1902–95), a half-brother of Souvanna Phouma, leader of the Pathet Lao and president of Laos from 1975 to 1986; and Kaysone Phomvihane (1920–1992), former chairman of the Council of Ministers.

#### 49 DEPENDENCIES

Laos has no territories or colonies.

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# LEBANON

Republic of Lebanon

*Al-Jumhuriyah al-Lubnaniyah*

**CAPITAL:** Beirut (Bayrut)

**FLAG:** The national flag, introduced in 1943, consists of two horizontal red stripes separated by a white stripe which is twice as wide; at the center, in green and brown, is a cedar tree.

**ANTHEM:** *Kulluna lil watan lil'ula lil'alam* (*All of Us for the Country, Glory, Flag*).

**MONETARY UNIT:** The Lebanese pound, or livre libanaise (LL), is a paper currency of 100 piasters. There are coins of 1, 2, 5, 10, 25, and 50 piasters and 1 Lebanese pound, and notes of 1, 5, 10, 25, 50, 100, 250, 1,000 and 10,000 Lebanese pounds. LL1 = \$0.000666 (or \$1 = LL1,501) as of March 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but traditional weights and measures are still used.

**HOLIDAYS:** New Year's Day, 1 January; Arab League Day, 22 March; Independence Day, 22 November; Evacuation Day, 31 December. Christian religious holidays include Feast of St. Maron, 9 February; Good Friday; Easter Monday; Ascension; Assumption, 15 August; All Saints' Day, 1 November; and Christmas, 25 December. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha', and Milad an-Nabi.

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

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

Situated on the eastern coast of the Mediterranean Sea, Lebanon has an area of 10,400 sq km (4,015 sq mi), extending 217 km (135 mi) NE–SW and 56 km (35 mi) SE–NW. It is bordered on the N and E by Syria, on the S by Israel, and on the W by the Mediterranean Sea, with a total boundary length of 679 km (422 mi), of which 225 km (140 mi) is coastline. Comparatively, the area occupied by Lebanon is about three-fourths the size of the state of Connecticut.

The Lebanon of today is the Greater Lebanon (Grand Liban) created by France in September 1920, which includes the traditional area of Mount Lebanon—the hinterland of the coastal strip from Sidon (Sayda) to Tripoli (Tarabulus)—some coastal cities and districts such as Beirut and Tripoli, and the Bekaa (Biqā') Valley in the east. As of January 1988, more than two-thirds of the territory was under foreign military occupation. Syrian forces have held northern Lebanon and the Bekaa Valley since 1976; West Beirut and the Beirut-Sidon coastal strip fell into their hands in February 1987. In southern Lebanon, Israeli troops in conjunction with the South Lebanese Army, a local militia, control a 1,000-sq-km (400-sq-mi) strip along the Israeli border.

Lebanon's capital city, Beirut, is located on the Mediterranean coast.

## <sup>2</sup>TOPOGRAPHY

The Mount Lebanon area is rugged; there is a rise from sea level to a parallel mountain range of about 2,000–3,000 m (6,600–9,800 ft) in less than 40 km (25 mi), and heavy downpour of winter rains has formed many deep clefts and valleys in the soft rock. The terrain has profoundly affected the country's history in that virtually the whole landscape is a series of superb natural fortresses from which guerrilla activities can render the maintenance of control by a centralized government an intermittent and costly affair. East of the Mount Lebanon Range is the Bekaa Valley, an extremely fertile flatland about 16 km (10 mi) wide and 129 km (80 mi) long from north to south. At the eastern flank of the Bekaa rise the Anti-Lebanon Range and the

Hermon extension, in which stands Mount Hermon straddling the border with Syria. Lebanon contains few rivers, and its harbors are mostly shallow and small. Abundant springs, found to a height of 1,500 m (4,900 ft) on the western slopes of the Lebanon Mountains, provide water for cultivation up to this height.

## <sup>3</sup>CLIMATE

Lebanon's extraordinarily varied climate is due mainly to the wide range of elevation and the westerly winds that make the Mediterranean coast much wetter than the eastern hills, mountainsides, and valleys. Within a 16-km (10-mi) radius of many villages, apples, olives, and bananas are grown; within 45 minutes' drive in winter, spring, and fall, both skiing and swimming are possible. Rainfall is abundant by Middle Eastern standards, with about 89 cm (35 in) yearly along the coast, about 127 cm (50 in) on the western slopes of the mountains, and less than 38 cm (15 in) in the Bekaa. About 80% of the rain falls from November to March, mostly in December, January, and February. Summer is a dry season, but it is humid along the coast. The average annual temperature in Beirut is 21°C (70°F), with a range from 13°C (55°F) in winter to 28°C (82°F) in summer.

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

Lebanon is rich in flora, with over 3,000 species. Olive and fig trees and grapevines are abundant on lower ground, while cedar, maple, juniper, fir, cypress, valonia oak, and Aleppo pine trees occupy higher altitudes. Vegetation types range from subtropical and desert to alpine. Although hunting has killed off most wild mammals, jackals are still found in the wilder rural regions, and gazelles and rabbits are numerous in the south. Many varieties of rodents, including mice, squirrels, and gerbils, and many types of reptiles, including lizards and snakes (some of them poisonous), may be found. Thrushes, nightingales, and other songbirds are native to Lebanon; there are also partridges, pigeons, vultures, and eagles.

## 5 ENVIRONMENT

Lebanon's forests and water supplies suffered significant damage in the 1975–76 war and subsequent fighting. Rapid urbanization has also left its mark on the environment. Coastal waters show the effects of untreated sewage disposal, particularly near Beirut, and of tanker oil discharges and oil spills. The water pollution problem in Lebanon is in part due to the lack of an internal system to consistently regulate water purification. The nation has 4.8 cubic kilometers of renewable water resources with 68% used for farming activity and 4% used for industrial purposes. Lebanon's cities produce an average of 0.5 million tons of solid waste per year.

Air pollution is a serious problem in Beirut because of vehicular exhaust and the burning of industrial wastes. In 1996, industrial carbon dioxide emissions totaled 14.1 million metric tons. Control efforts have been nonexistent or ineffective because of political fragmentation and recurrent warfare since 1975.

The effects of war and the growth of the nation's cities have combined to threaten animal and plant life in Lebanon. In 1986, the National Preservation Park of Bte'nayel was created in the region of Byblos to preserve wooded areas and wildlife. As of 2001, five of the nation's mammal species and five of its bird species are endangered. Three of its plant species are also threatened with extinction. The Mediterranean monk seal, African softshell turtle, and dogfish shark are on the endangered list. The Arabian gazelle and Anatolian leopard are extinct.

## 6 POPULATION

The population of Lebanon in 2003 was estimated by the United Nations at 3,653,000, which placed it as number 124 in population among the 193 nations of the world. In that year approximately 7% of the population was over 65 years of age, with another 28% 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 1.56%, with the projected population for the year 2015 at 4,207,000. The population density in 2002 was 418 per sq km (1,082 per sq mi). Most of the population lives on the coastal plains where the major cities are located.

It was estimated by the Population Reference Bureau that 90% of the population lived in urban areas in 2001, up from 74% in 1980. More than half of the population resides in the capital city, Beirut, with a population of 2,012,000. Tripoli had approximately 160,000 inhabitants. According to the United Nations, the urban population growth rate for 2000–2005 was 1.7%.

## 7 MIGRATION

The economic roots of emigration may be traced to the increase of crop specialization during the 19th century and to the subsequent setbacks of the silk market toward the end of the century. Political incentives also existed, and many Lebanese left their country for Egypt (then under British rule) or the Americas at the turn of the century. After the mid-1960s, skilled Lebanese were attracted by economic opportunities in the Persian Gulf countries. Large numbers fled abroad, many of them to France, Syria, Jordan, Egypt, and the Gulf countries, during the civil war in 1975–76. In 1986, the Lebanese World Cultural Union estimated that some 13,300,000 persons of Lebanese extraction were living abroad, the largest numbers in Brazil, the United States, and Argentina.

Since the outbreak of war in 1975, internal migration has largely followed the pattern of hostilities, peaking in 1975/76 and again after the Israeli invasion of 1982. In 1993, the number of refugees in various parts of the country was estimated at over 600,000. As of April 1998, the UNHCR was helping to assist 3,191 refugees in Lebanon, including 1,990 Iraqis, 550 Afghans,

284 Sudanese, 152 Somalis, and 250 refugees from various other countries. Also in 1998, there were more than 350,000 Palestinian refugees who had asylum in Lebanon, where they were assisted by UNRWA. In 2000, the net migration rate was 4.8 per 1,000 population, down from 12.1 per thousand in 1990. There were 634,000 migrants in Lebanon in 2000, including 382,700 refugees. The government views the migration levels as too high.

## 8 ETHNIC GROUPS

Ethnic mixtures dating back to various periods of immigration and invasion are represented, as are peoples of almost all Middle Eastern countries. A confusing factor is the religious basis of ethnic differentiation. Thus, while most Lebanese are Arabs, they are divided into Muslims and Christians, each in turn subdivided into a number of faiths or sects, most of them formed by historical development into separate ethnic groups. The Muslims are divided into Sunnis and Shi'is. The Druzes, whose religion derives from Islam, are a significant minority. The Christians are divided mainly among Maronites, Greek Orthodox, and Greek Catholics. All the major groups have their own political organizations, paramilitary units, and territorial strongholds. Other ethnic groups include Armenians (most of them Armenian Orthodox, with some Armenian Catholics) and small numbers of Jews, Syrians, Kurds, and others. The number of Palestinians is estimated at 450,000–500,000. In addition there are about 180,000 stateless undocumented persons. Some of these are inhabitants of disputed border areas. As of 1999, population statistics stood at 95% Arab, 4% Armenian, and 1% other.

## 9 LANGUAGES

Arabic is the official language and is spoken throughout the country. Much of the population is bilingual, with French as the main second language. There are also significant numbers of English, Armenian, and Turkish speakers. The distinctive Lebanese Arabic dialect contains various relics of pre-Arabic languages and also shows considerable European influence in vocabulary.

## 10 RELIGIONS

Religious communities in the Ottoman Empire were largely autonomous in matters of personal status law and were at times treated as corporations for tax and public security matters. Membership in a millet, as these groups were called in Ottoman law, gave the individual citizenship, and this position, although somewhat modified, has given Lebanese politics its confessional nature. Religion is closely connected with civic affairs, and the size and competing influence of the various religious groups are matters of overriding political importance. The imbalance of power between Christians and Muslims, aggravated by the presence of large numbers of Palestinians, was a major factor contributing to the bitter civil war in 1975–76.

As of 2002, it has been estimated that about 70% of the population practice Islam (5 legally recognized groups—Alawite or Nusayri, Druze, Isma'ilite, Shi'a, and Sunni). Christians made up 23% of the population (11 legally recognized groups—4 Orthodox Christian, 6 Catholic, and 1 Protestant). The Maronites are the largest Christian group with Greek Orthodox being the second largest. There was also a small number practicing Judaism. Muslims have come to outnumber Christians as the result of long-term demographic trends and population displacements during and after the civil war. The main branches of Islam are Shi'a and Sunni.

Under an unwritten agreement made at the time of the National Covenant of 1943, the president of Lebanon must be a Maronite Christian, the prime minister a Sunni Muslim, and the speaker of parliament a Shi'a Muslim, with a ratio of six Christians to every five Muslims in the legislature. But this



LOCATION: 35°6' to 36°36' E; 33°4' to 34°41' N. BOUNDARY LENGTHS: Syria, 359 kilometers (223 miles); Israel, 102 kilometers (63 miles); Mediterranean coastline, 195 kilometers (121 miles). TERRITORIAL SEA LIMIT: 12 miles.

arrangement has subsequently ceased to reflect the strength of competing religious groups in the population and is widely criticized. The climate of religious freedom in the country has attracted a great deal of immigrants from neighboring countries who are themselves facing religious discrimination. Both Christian and Muslim holidays are officially observed.

## 11 TRANSPORTATION

As of 2002, Lebanon had 7,300 km (4,536 mi) of roads of which 6,350 km (3,945 mi) were paved. Construction of new roads have been frequently delayed by recurrent hostilities. Many roads were badly in need of repair; since 1982, fully one-third of the country's roads have been rehabilitated. Some new mileage has also been added. In 2000 there were 524,900 registered passenger autos, and 200,400 commercial vehicles.

The 399 km (248 mi) state-owned railway of which 317 km (197 mi) consists of a 1.435-m-gauge line running parallel to the

coastal area where civil hostilities kept the railway virtually inoperable in 1991. And, due to the civil war in 2001, the entire system is unusable because of damage.

Beirut, a major Mediterranean port, was closed during the 1975-76 war and intermittently thereafter, reopening by March 1991. When Beirut port was closed, Sidon became the principal port for Muslims and Juniyah for Christians. Other ports include Tripoli and Tyre. The rehabilitation and modernization of Beirut Port is underway, and the rehabilitation and development of Tripoli Port was completed in 2001. As of 2002, Lebanon had a merchant fleet of 67 ships with a capacity of 320,770 GRT.

There were eight airports in 2001, five with paved runways. Beirut International, Lebanon's principal airport, remained generally open until bombing during the Israeli invasion forced its closure in June–October 1982. It had handled 1,660,000 passengers in 1980; by 1985, the number was down to 599,000. Lebanon's two airlines, Middle East Airlines (MEA) and Trans-Mediterranean Airways (TMA), suffered heavy losses during the 1975-76 war and the Israeli invasion. In 2001, 815,900 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The geographical features of Lebanon have had a major effect on its history. Its mountains enabled the minority communities to survive the despotisms that submerged the surrounding areas. The sea provided trade routes in ancient times for exports from Lebanese cedar and spruce forests, and for commerce in copper and iron during the time of the Ptolemies and the Romans. Both Lebanon and Syria were historically associated from early times as part of Phoenicia (c.1600–c.800 BC), and both were later swept up into the Roman Empire. In the 7th century AD, the Arabs conquered part of Lebanon. Maronite Christians had long been established there; Islam gradually spread by conversion and migration, although the country remained predominantly Christian. In the 11th century, the Druzes established themselves in the south of the Mount Lebanon area as well as in Syria. Parts of Lebanon fell temporarily to the Crusaders; invasions by Mongols and others followed, and trade declined until the reunification of the Middle East under the Ottoman Empire.

For the most part, Ottoman officials of the surrounding areas left the Mount Lebanon districts to their own emirs and sheikhs. Fakhr ad-Din (1586–1635) of the Ma'an family set out to create an autonomous Lebanon, opened the country to Western Europe through commercial and military pacts, and encouraged Christian missionary activity. In 1697, the Shihab family acquired dominance, and from 1788 to 1840, except for a few intervals, Mount Lebanon was ruled by Bashir II of the Shihab family, who extended his power and was partly successful in building a strong state. The Egyptian occupation of Syria (1832–40) opened the Levant to large-scale European penetration and tied Lebanese affairs to international politics. It also heightened the antipathy between Christians and Druzes, with the occupiers from time to time using armed groups of one against the other. The British invasion of 1840–41 served to deliver Lebanon from Egyptian rule and forced Bashir II into exile, but it also involved France and the United Kingdom in the problem of finding a modus vivendi for the religious factions. A partition of government did not work. Economic discontent was inflamed by religious antagonisms, and the Druzes, feeling their power dwindling, organized a major onslaught against the Christians in 1860. When the latter, fearing annihilation, requested European intervention, major powers sent fleets into Syrian waters and the French sent an army into Mount Lebanon. Under European pressure, the Ottoman government agreed to the establishment of an international commission to set up a new, pro-Christian government; an autonomous province of Mount Lebanon was created in 1864, with a Christian governor who, though the

servant of the Ottoman state, relied upon European backing in disputes with his sovereign.

The entry of the Ottoman Empire into World War I led to an Allied blockade, widespread hunger, and the destruction of Lebanese prosperity. An Anglo-French force took the country in 1918, and in 1920, an Allied conference gave France a mandate over Syria, in which Mount Lebanon was included. The French separated from Syria the area they called Greater Lebanon (Grand Liban), which was four times as large as the traditional Mount Lebanon and included a Muslim population almost as large as the Christian. The mandate years were a time of material growth and little political development.

Lebanon came under Vichy control in 1940, but in 1941, Lebanon and Syria were taken by a combined Anglo-Free French force. The Free French proclaimed Lebanese independence in November 1941, but when a strongly nationalistic government was created in 1943, the French intervened and arrested the new president, Bishara al-Khuri. An insurrection followed, prompting UK intervention and the restoration of the government. In 1945 agreement was achieved for the withdrawal of both UK and French forces, and in 1946 Lebanon assumed complete independence.

The 1950s and 1960s were generally characterized by economic and political stability. Beginning in 1952, Lebanon received increased US aid and also benefited from an influx of Western commercial personnel and from growing oil royalties. It also seemed the calmest center of the Middle East, taking little part in the Arab-Israeli war of 1948 and no action in the wars of 1967 and 1973. In 1958, however, a reported attempt by President Camille Chamoun (Sha'mun) to seek a second term precipitated a civil war, and in July the United States sent forces to help quell the insurrection; this move was in keeping with the Eisenhower Doctrine, which pledged US military and economic aid to any country requesting it in order to counter a Communist threat. The crisis was settled when General Fu'ad Shihab (Chehab), who was supported by both government and opposition groups, was elected president in July. By October US forces were withdrawn, and public security was reestablished.

In the late 1960s and early 1970s Lebanon's economy was disrupted by conflict in the Middle East, vividly brought home by the presence, near the border with Israel, of thousands of well-armed Palestinian guerrillas, many of whom had come from Jordan following the "Black September" fighting there in 1970-71. Serious clashes between them and the Lebanese army occurred in 1969. Fearing civil war, the government that year signed the so-called Cairo Accord with the Palestinian Liberation Organization (PLO), which virtually made it a state within the state. The PLO gained the right to establish military bases and launch cross-border raids into Israel. This inevitably led to Israeli reprisals, and PLO interference in Lebanese affairs accelerated a slide toward anarchy. In April and May 1974, a series of Palestinian attacks on Lebanese villages killed scores of persons and injured hundreds. Government efforts to deal with the problem were denounced as insufficient by Christian rightists, while Muslim leftists defended the Palestinians, and both factions formed private militias.

Intermittent fighting between the armed factions continued, and raids by Palestinian guerrillas based in southern Lebanon drew Israel into the conflict. In March 1978 the Israeli army invaded southern Lebanon, destroyed PLO bases, and then withdrew when the UN Interim Force in Lebanon (UNIFIL) was established to keep the peace. Continuing PLO rocket attacks on northern Israel and Syria's installation of antiaircraft missiles in the Bekaa Valley prompted Israel to launch a full-scale invasion of Lebanon in June 1982. Israeli forces quickly destroyed PLO bases in the south and in Tyre and Sidon, penetrated to the outskirts of Beirut, and disabled the Syrian missile bases. Several cease-fires arranged by US envoy Philip Habib broke down, but

following a two-month Israeli siege of West Beirut, where the Palestinians were encamped, a truce was agreed to by Israel, the PLO, and Syria; by 1 September, more than 14,000 Palestinian and Syrian fighters had been evacuated. The Lebanese estimated their war casualties at more than 19,000 dead and 30,000 wounded (figures disputed by Israel). A multinational peacekeeping force, comprising British, French, and Italian soldiers and US marines, was stationed in the Beirut area in early September.

During the early months of 1975, sporadic violence between the two factions gradually erupted into a full-scale civil war that pitted Maronite Christians against Muslims and against other Christian sects, and rightist militants against Palestinian guerrillas and other leftist Arab forces. At least 100,000 people on all sides were killed and some 600,000 persons displaced during the eighteen months of fighting. In April 1976 Syrian forces entered Lebanon, in an apparent effort to prevent an all-out victory by left-wing Muslims and Palestinians; by the fall, some 20,000 Syrian troops controlled the Bekaa Valley. A cease-fire arranged through the mediation of Sa'udi Arabia and other Arab countries enabled a peacekeeping force (including Syrian troops) to separate the combatants and end the war in October. The conflict not only devastated Lebanon economically, but so weakened the central government that effective power lay with the Syrians, the Palestinians, and some thirty sectarian militias. In general, the Christian Phalangists held sway over east-central Lebanon; fighters loyal to Major Sa'ad Haddad, a right-wing Lebanese army officer, controlled the southern border area, in a security zone set up by Israel; and the PLO, other Muslim leftists, and Syrian forces occupied northern and eastern Lebanon.

Despite the truce, the violence continued. On 14 September Bashir Gemayel, a Phalangist leader who in August had been elected president by the Lebanese parliament, was assassinated. Almost immediately, Israeli troops moved into West Beirut to wipe out pockets of Palestinian resistance causing tens of thousands of casualties. Phalangist forces were allowed into the Sabra and Shatila refugee camps, and at least 600 Palestinians, many of them civilians, were massacred; a subsequent Israeli government inquiry was critical of senior officials for indirect responsibility for the killings. In 1983 Israeli and Syrian troops still occupied large portions of Lebanon, and they became targets of attack by Muslim and Druze forces. In May 1983 Lebanon, Israel, and the United States signed an agreement by which Lebanon and Israel agreed to end their state of war. Israel agreed to withdraw all its forces, and both countries agreed to establish a security zone in southern Lebanon patrolled by Lebanese forces and joint Israeli-Lebanese teams. However, Syria opposed it and the agreement, never implemented, was repudiated by Lebanon in 1984.

The American embassy in Beirut was bombed in April 1983, and US marines were harassed by sniper fire. On 23 October, 241 of them were killed by a truck-bomb explosion in their barracks at Beirut airport; on the same day, a similar bombing caused at least fifty-eight deaths at a French paratroop barracks. Shortly before, Lebanon and Syria had agreed to a cease-fire pending a reconciliation conference, which began in Switzerland in November, with all major Lebanese political factions participating. Meanwhile, fighting broke out between a radical Syrian-supported PLO faction and guerrillas loyal to Yasser Arafat, chairman of the organization; defeated at Tripoli, Arafat withdrew from Lebanon in December.

As 1984 began, the position of the government headed by Amin Gemayel, who had been elected president to succeed his brother, was deteriorating. In February the United States, the United Kingdom, and Italy pulled their ground troops and nonessential personnel out of the Beirut area. In March, the Lebanese reconciliation conference dissolved without reaching substantial agreement. The following month a "national unity"

government was formed, bringing together the leaders of all the major warring factions. But it almost never met and could not pacify the country; intermittent clashes between factions continued. Israel's withdrawal of its troops from Lebanon (except the south) in early 1985 left in its wake renewed fighting for the evacuated territory. In December a Syrian-sponsored cease-fire agreement that included constitutional reforms was signed by the Druze, Amal (Shi'i), and Christian factions, but its terms were never implemented. The general lawlessness encouraged terrorist groups of all kinds to promote their own ends by assassinations, kidnappings, and bombings. Among the most feared was the Hezbollah, or Party of God, which was aligned with fundamentalist Iranian Revolutionary Guards.

In 1985–86 there was sporadic fierce fighting between Palestinian and Shi'i Amal militia. Syria pushed for political reform and, when opposed by Gemayel and militant Christians, influenced Muslim ministers not to deal with the president, thus paralyzing the government. With the economy in serious decline, Prime Minister Rashid Karami was assassinated to be succeeded by Salim al-Huss. The badly divided factions could not agree on a successor to Gemayel when his term expired in September 1988. Christian Army Commander Michel Aoun asserted himself as prime minister, giving Lebanon two governments, a Muslim one in West Beirut and a Christian one in East Beirut. Aoun was opposed by the Syrians and Muslims and by rival Christian factions.

In January 1989 the Arab League appointed a committee on Lebanon which eventually, in September, arranged for a seven-point cease-fire and convened a meeting of Lebanese parliamentarians in Taif, Sa'udi Arabia. The Taif Accord that resulted in November led to the election of Elias Hrawi, a Maronite Christian, as president. He named al-Huss prime minister. When forces of General Aoun (who was technically deposed by Hrawi) attacked Christian and Syrian positions, they retaliated in strength and finally obliged him to take exile in France in 1991.

In 1991–92 the government gradually began to reassert its authority. Militias, except notably Hezbollah and the Israeli-backed army of South Lebanon, were dissolved in May 1991. Palestinian militants were repressed in Sidon in July. In May 1992 the last western hostages were released after years of confinement. Lebanon joined the Israeli-Arab peace talks in Madrid in October 1991. Internally, the poor economy aggravated political instability, but parliamentary elections, the first in twenty years, were scheduled for 1992. Poor preparations, widespread irregularities, and Christian abstention produced results that did not prepare Lebanon for an assured future. Yet, the appointment of Prime Minister Rafiq al-Hariri in November 1992 promised a serious effort at reconstruction.

Al-Hariri, a self-made billionaire who made his fortune in Sa'udi Arabia, was perceived by many to be a savior of sorts for the war-torn country. He had a long history of philanthropic giving, donating large sums to rebuild Beirut, for instance. As prime minister, he has been frequently accused of corruption and of making sure government rebuilding efforts were directed toward companies under his control. Still most Lebanese approved of his efforts to stabilize the country and unite its many long-warring factions. In 1996, al-Hariri was reelected prime minister in a unanimous vote of parliament.

In 1996 Lebanon was still subject to political violence, especially in the Israeli occupied south, where that year 255 people were killed (twenty-seven Israeli soldiers) in violence. Fifty-four of the dead were members of Hezbollah, and nineteen were militiamen in the Israeli-controlled South Lebanon Army (SLA). The violence continued into 1997.

The President Ilyas Hrawi had been elected to the six-year post in 1989. In 1995 when his term was set to expire in accordance with the constitution, parliament extended his term for an

additional three years. Hrawi proved to be a weak leader and his standing with the Maronites was low. Emile Lahoud, of a prominent Maronite family, had been promoted to major-general in 1985, and general and army commander in 1989. In 1998 his name surfaced as a potential successor to Hrawi. In October 1998 the Assembly introduced an unparalleled amendment to the constitutional clause requiring senior public officials to leave office before running for president. Within two days Lahoud was elected president of the National Assembly. Lahoud was sworn in on 24 November 1998 as Lebanon's eleventh president. On 4 December 1998 Salim al-Huss began his fifth term as prime minister after Hariri's sudden resignation.

In early 1999 fighting in southern Lebanon escalated as the Hezbollah staged attacks on Israeli forces and the Israeli-backed SLA. Israel retaliated on Hezbollah strongholds, and by February expanded air strikes beyond the "security zone" to southern and northern Lebanon. The al-Huss government's fiscal austerity aimed at reducing the deficit, which had grown to 15% of gross domestic product, met with resistance from the trade unions. On 24 June 1999 Israel destroyed bridges and power stations with its heaviest air raids in three years. In July 1999 the UN Security Council renewed for six months the mandate for UNIFIL, the UN Interim Force in Lebanon, and restated its support of the territorial integrity and sovereignty of Lebanon.

At the end of 1999 in anticipation of elections in August 2000, the government passed a law creating fourteen constituencies of suspiciously varying sizes based on rewarding or punishing political foes or friends. A bill to curb the media, limiting all elections news, advertisements, and coverage to the state-run Tele-Liban and Radio Liban, and limiting campaign spending was also drafted. On 24 May 2000 Israel made a quick withdrawal from southern Lebanon. With the Israeli withdrawal the SLA disintegrated. The exact border between Lebanon and Israel remained unsettled as they disputed ownership of the Shabaa Farms. The Lebanese government sent police and intelligence officers to the newly liberated area, but refused to deploy troops until there was evidence of stability or a comprehensive peace treaty with Israel.

In March 2001, Lebanon began to divert waters from the Wazzani River to supply villages in southern Lebanon. The Wazzani feeds into the Hatzbani, which in turn flows into the Jordan River watershed and Lake Kinneret (Lake Tiberias or the Sea of Galilee), a major source of Israel's water supply. In September 2002, Israel's Prime Minister Ariel Sharon identified measures to divert water from Israel as a cause for war.

Syrian troops withdrew from Beirut in June 2001 to redeploy in other parts of Lebanon, in response to greater Lebanese criticism of Syria's presence there. In February 2003, the Syrian army completed its redeployment out of north Lebanon. Up to 4,000 troops left north Lebanon for central Syria. The majority of the Syrian army left in Lebanon is assembled in a stretch of the Bekaa Valley on the Syrian border. In February, Lebanon warned Israel against expelling Palestinians to Lebanon if war were to break out in Iraq, stating such a move would be akin to declaring war. In response, Israel stated it had no such plans. As of early 2003, there were approximately 350,000 Palestinian refugees in Lebanon. Also in February, Israeli warplanes flew over southern Lebanon, particularly over the Shabaa Farms, carrying out mock raids, at which Hezbollah fired anti-aircraft weaponry. Hezbollah and Israeli forces exchanged fire over the Shabaa Farms in January 2003, the first such exchanges since August 2002. Israel and Hezbollah are locked in a territorial dispute over the Farms, an area Israel captured from Syria during the 1967 war. Lebanon claims the region, although the UN holds that it belongs to Syria, and that Syria and Israel should negotiate its fate.

Parliamentary elections held 27 August and 3 September 2000 resulted in the appointment on 23 October of Rafiq al-Hariri as prime minister once again.

### 13 GOVERNMENT

As defined by the constitution of 1926 and subsequent amendments, Lebanon is an independent republic. Executive power is vested in a president (elected by the legislature for six years) and a prime minister and cabinet, chosen by the president but responsible to the legislature. Under an agreement dating back to the French mandate, the president must be a Maronite Christian, the prime minister a Sunni Muslim, and the president of the National Assembly a Shi'a Muslim. Decisions by the president must be countersigned by the prime minister and concerned minister(s) after approval by the National Assembly. Legislative power is exercised by a 128-member National Assembly (formerly the Chamber of Deputies), elected for a four-year term by universal adult suffrage (compulsory for males of twenty-one or over, permitted for women over twenty-one with elementary education). The electoral reform law of 1960 determined the denominational composition of the legislature as follows: thirty Maronites; twenty Sunni, nineteen Shi'a; eleven Greek Orthodox; six Greek Catholics; six Druzes; four Armenian Orthodox; one Armenian Catholic; one Protestant; and one Others. Deputies were elected to the legislature in 1972, but elections scheduled for 1976 were postponed because of the war, and the legislature has extended its term every two years until 1992. The Taif Accord of 1989 set the Christian-Muslim balance in parliament at fifty-fifty, but the failure of Christians to participate in the elections of 1992 and 1996 gave Muslim groups the largest number of seats in the Chamber. There has been no official census in the country since 1932, but most observers believe Muslims now form the majority with the Shi'i as the largest single group. The denominational composition of the legislature following the 2000 elections was: Maronites (34), Sunnites (27), Shi'ites (27), Greek Orthodox (14), Greek Catholics (8), Druzes (8), Armenian Orthodox (5), Alaouites (2), Armenian Catholics (1), Protestants (1), and Christian Minorities (1).

### 14 POLITICAL PARTIES

Political life in Lebanon is affected by the diversity of religious sects and the religious basis of social organization. The mainly Christian groups, especially the Maronites, favor an independent course for Lebanon, stressing its ties to Europe and opposing the appeals of Islam and pan-Arabism. The Muslim groups favor closer ties with Arab states and are opposed to confessionalism (political division along religious lines). Principal political groups, with mainly Christian membership, are the National Liberal Party and the Phalangist Party. There are various parties of the left, including the Progressive Socialist Party (of mostly Druze membership), the Ba'ath Party, and the Lebanese Communist Party. The various Palestinian groups, allied under the umbrella of the Palestine Liberation Organization, played an important role in the political life of Lebanon from the late 1960s until Israel's invasion drove them from the country in the 1980s. Amal, a conservative grouping, and Hezbollah, more militant, represent the Shi'i community. The former gained eighteen seats and the latter twelve seats in the elections of 1992. The Christian community, which was supposed to have half the seats, largely boycotted the elections and, as a result, won only fifty-nine seats.

There are currently at least eighteen religious-based political parties in Lebanon. In 1996, parliamentary elections were again held, and again certain Christian sects called for a boycott. Still, turnout was much higher than in the 1992 elections, reflecting the country's increasing political stability (turnout was about 45%). International observers found the elections substantially fair, but noted some irregularities, including Syrian interference, vote buying and ballot stuffing. The government itself acknowledges these shortcomings and has instituted some reforms.

The 1996 elections took place in five stages between August and September. The balloting gave a strong majority to a coalition of pro-Syrian parties, notably the Hezbollah-Amal coalition. There were forty-nine newcomers elected—three of whom were female—and nineteen seats were being contested on charges of voter fraud. Following the election, Prime Minister al-Hariri stepped down, as is tradition, so that President Hrawi and the new parliament could choose a new prime minister. In late October, the parliament, with presidential backing, nominated al-Hariri for his second term, as was expected. The vote in parliament was 121-0 with four abstentions.

Al-Hariri, a billionaire, is one of the richest men in the world: in 1996 there were three billionaires and thirty-five millionaires in parliament. Asked by Lahoud to be prime minister in 1998, Salim al-Huss became prime minister after al-Hariri abruptly resigned office. Al-Hariri was asked by President Lahoud to become prime minister once again in October 2000; he received 107 parliamentary votes backing him.

Palestinian refugees have no right to vote, despite numbering approximately 350,000 in 2003.

### 15 LOCAL GOVERNMENT

Lebanon is divided into the five provinces (*muhafazat*) of Beirut, North Lebanon, South Lebanon, Bekaa, Mount Lebanon, and Nabatiye, each with its district administration. The *muhafazat* are subdivided into districts (*aqdiya*), municipalities, and villages. Provincial governors and district chiefs are appointed by presidential decree. In most villages, councils of village elders or heads of families or clans still play a considerable role.

Municipal elections had not been held since 1963, despite widespread civil desire for such elections. In 1995, parliament passed a law extending the term of municipal officers until 31 December 1996, after which elections were slated to be held. Municipal elections were held in May and June 1998. Fifty-four municipal councils and 169 *mukhtar* or mayors were elected. Seventy-eight seats were won by women on the new municipal councils.

### 16 JUDICIAL SYSTEM

Ultimate supervisory power rests with the minister of justice, who appoints the magistrates. Courts of first instance, of which there are fifty-six, are presided over by a single judge and deal with both civil and criminal cases; 17 of these courts are in Beirut. Appeals may be taken to eleven courts of appeal, each made up of three judges. Of the four courts of cassation, three hear civil cases and one hears criminal cases. A six-person Council of State handles administrative cases. A Constitutional Council, called for in the Taif Accord, rules on the constitutionality of laws upon the request of 10 members of parliament. Religious courts—Islamic, Christian, and Jewish—deal with marriages, deaths, inheritances, and other matters of personal status in their respective faiths. There is also a separate military court system dealing with cases involving military personnel and military related issues.

The law provides for the right to a fair public trial and an independent and impartial judiciary. In practice, politically influential elements succeed in intervening to obtain desired results.

Matters of state security are dealt with by a five-member Judicial Council. The Judicial Council is a permanent tribunal, and the cabinet, on the recommendation of the Ministry of Justice, decides whether to bring a case before the Judicial Council.

In the refugee camps, the Palestinian elements implement an autonomous system of justice in which rival factions try opponents without any semblance of due process. Hezbollah applies Islamic law in the area under its control.

## 17 ARMED FORCES

The conflict of 1975–90 split the regular Lebanese army along Christian-Muslim lines. The force was later reformed, first by the United States, then by Syria. In 2002, active armed forces totaled 76,000 with some 40,000 reserves in the People's Militia. The army numbered 70,000 equipped with around 327 main battle tanks. There was a navy of 830 and an air force of 1,000 personnel, neither well-armed.

Much of the opposition militia has disbanded, and the Moslem Hezbollah (3,000 active) is the only significant communal army remaining. The defense budget was \$343 million in 1999–00 or 4.8% of GDP. Also stationed in Lebanon were 3,638 UNIFIL (UN peacekeeping) troops, 150 Iranian Revolutionary Guard Troops, and 18,000 Syrian troops.

## 18 INTERNATIONAL COOPERATION

Lebanon has been a charter member of the UN since 24 October 1945 and belongs to ESCWA and all the nonregional specialized agencies. It is the host to UNRWA and UNIFIL and is one of the founding members of the Arab League. Lebanon also is a member of G-77, and a signatory of the Law of the Sea. Lebanon has observer status at the WTO.

## 19 ECONOMY

Lebanon is traditionally a trading country, with a relatively large agricultural sector and small but well-developed industry. Until the civil war, it had always figured prominently as a center of tourist trade. The 1975–76 war caused an estimated \$5 billion in property damage and reduced economic activities to about 50% of the prewar level. The cost of reconstruction after the Israeli-Palestinian-Syrian war of 1982 was estimated at \$12–15 billion. Lebanon has been able to survive economically because of remittances from abroad by Lebanese workers and companies, external aid by the United States, France, Germany, and Arab countries, and foreign subsidies to various political groups. A residual effect of the 1982 war was political uncertainty, which poisoned the economic climate in the following years. In 1984 and after, there was a pronounced deterioration in the economy. In 1987 inflation peaked at 487%. After the 1989 Taif Accord for National Reconciliation ended hostilities, the economy began to recover. Economic activity surged in 1991, and in 1993 the Hariri Government was able to stabilize the economy, and launch a program to reconstruct the economy's infrastructure. Real GDP grew 4.2% in 1992, after growing by about 40% in 1991.

Since 1988, the economy has continued to post growth rates averaging 7.5%, although a rising budget deficit threatens to hamper economic reforms. Israel's Operation Grapes of Wrath in April 1996 cut economic development short, but in the same year, the stock market had reopened, and investment had made significant returns. In 1997, unemployment remained high at about 18% although inflation had been reduced to around 5% by 1998. Gross domestic product grew by 3% in 1998. Growth in 1999 was 1% and flat in 2000, according to the Central Bank estimate. Projections for 2001 from different sources range from 2% to 4%. Inflation was 1% in 1999 and zero in 2000, and did not exceed 3% in 2001. High unemployment remains a persistent problem, at 20 to 25% in 1999 and 2000, and 15% to 20% in 2001. Among Lebanese youth unemployment is estimated to be 30%. The absence of a government department of statistics (it was closed because of the war) makes all figures questionable.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Lebanon's gross domestic product (GDP) was estimated at \$18.8 billion. The per capita GDP was estimated at \$5,200. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2001 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 12% of GDP, industry 21%, and services 67%. Foreign aid receipts amounted to about \$55 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 \$2,705. 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 31% of household consumption was spent on food, 10% on fuel, 7% on health care, and 9% on education. It was estimated that in 1999 about 28% of the population had incomes below the poverty line.

## 21 LABOR

The labor force in 2001 was approximately 1.5 million workers, with as many as 1 million additional foreign laborers in Lebanon. The estimated unemployment rate in 1997 was 18%.

There are some 160 labor unions and organizations enrolling about 42% of the workforce as of 2001. The General Confederation of Workers is composed of 22 unions with about 200,000 members. Organized labor has grown slowly, partly because of the small number of industrial workers, but also because of the availability of a large pool of unemployed. Agricultural and most trade workers are not organized. Palestinians in Lebanon are free to organize their own unions. While Lebanese workers have the right to strike, there are limitations on public demonstrations which somewhat undermine this right. Lebanese workers have the right to organize and bargain collectively and this is the standard practice in employment situations.

Workers as young as eight may legally work with restrictions as to working hours and conditions. However, in reality, age limitations are not effectively enforced. In 2002, a monthly minimum wage of \$200 was in effect. The standard workweek is set at 48 hours, with a 24-hour rest period. In practice, most laborers average around 35 hours of work per week.

## 22 AGRICULTURE

In 2000, 4% of the working population was engaged in agricultural activity, and agriculture accounted for about 12% of GDP. Less than 30% of Lebanon's land is arable, and expansion of cultivated areas is limited by the arid and rugged nature of the land.

Agricultural production was severely disrupted by the 1975–76 war, and production of citrus fruits, the main crop, was reduced to low levels in the fertile Bekaa Valley by Israeli-Syrian fighting during 1982. Principal crops and estimated 1999 production (in thousand tons) were sugar beets, 290; potatoes, 250; oranges, 155; apples, 118; lemons and limes, 111; bananas, 105; olives, 90; grapefruit, 54; and wheat, 58. In 2001, Lebanon exported \$169.1 million in agricultural products (19% of total exports) and imported \$1.2 billion (16.6% of all imports). Two profitable, albeit illegal, crops produced are opium poppy (for heroin) and cannabis (for hashish). A joint Lebanese-Syrian eradication effort has practically wiped out the opium crop and significantly reduced the cannabis crop.

## 23 ANIMAL HUSBANDRY

Much of Lebanon's livestock was lost during the protracted hostilities since the 1975–76 war and the Israeli invasion in 1982. In 2001 there were an estimated 399,000 goats, 329,000 sheep, 78,000 head of cattle, and 32,000,000 poultry. As Lebanon's

own meat and milk production is below consumption needs, animal and milk products are imported.

## 24 FISHING

The fishing industry has not progressed significantly, despite a government-sponsored effort to reduce fish imports and provide employment in the canned-fish industry. The catch in 2000 was 3,666 tons.

## 25 FORESTRY

Forests comprised about 36,000 hectares (89,000 acres), or nearly 3.5% of the total area, in 2000. Most of the forests are in the central part of the country, with pine and oak predominant. Few of the ancient cedars have survived; small cedar forests have been planted at high altitudes. Roundwood production in 2000 was 26,000 cu m (917,000 cu ft).

## 26 MINING

Lebanon's mineral industry continued its historically small contribution to the economy. Mining activity was limited to the production of salt and the quarrying of raw materials for the construction industry, particularly limestone and silica for cement manufacture. In 2001, hydraulic cement production totaled 2.7 million tons, down from 3.3 million tons in 1998; gypsum, 1,300 tons; lime, 13,500 tons; and salt, 3,500 tons. Cement exports accounted for 3% of total exports. In 2001, Lebanon also produced semimanufactured iron and steel, phosphatic fertilizers, phosphoric acid, and sulfuric acid. Modest deposits of asphalt, coal, and iron ore occurred, and the country had no petroleum or gas reserves. The success of Lebanon's minerals industry depended on the long-term restoration of peace and stability in the country.

## 27 ENERGY AND POWER

Political instability and conflict curtailed petroleum exploration in the 1970s and 1980s. In early 1991 natural gas discoveries near El-Marq encouraged further exploration.

A refinery at Tripoli satisfies only about 15% of domestic demand; imports from Syria, Romania, Bulgaria, Greece, and Italy meet the remaining demand for petroleum products.

Italian, French, and Korean firms have been contracted to rehabilitate power stations, install transmission networks, and distribute electricity outside greater Beirut. Lebanon's largest hydroelectric plants are on the Litani River. In 2001, total installed electrical capacity was about 1,323,000 kW. Production in 2000 totaled 7,200 million kWh, of which 96.9% was from fossil fuels and 3.1% from hydropower. Consumption of electricity in 2000 was 8.6 billion kWh.

## 28 INDUSTRY

The 16-year civil war that ended in 1991 caused tremendous damage to the industrial sector. By 1993, it was estimated that the Lebanese industry suffered losses of \$1.5 billion. Inadequate infrastructure and shortage of skilled labor are major obstacles in the process of rehabilitation. By 1995, the industrial sector was showing signs of improvement. Industrial exports in the first quarter of 1995 were up 76% (to \$79.5 million) compared with the same period in 1994. Industry accounted for an estimated 28% of GDP in 1995. Industrial production grew at rates of 3.8% in 1997 and 2.8% in 1998. In 2000, industry contributed 21% to GDP. Major industrial products are clothing, metal, food, marble and sanitary equipment, cement, jewelry, furniture, paper, beverages, and plastic. In 2002, manufacturing contributed 17% to GDP and accounted for 40% of total exports. Industrial activity is concentrated in construction material (35%); food and beverages (20%); textiles and ready-made garments (14%); and furniture (10%). The sector remains weak due to obsolete equipment, high operating costs, low productivity, and limited access to financing.

Lebanon's two main oil refineries suspended operations for most of the 1990s after 1992 but were operative in 2002. Total refinery capacity in 2002 was 42,000 barrels per day, including 38,000 barrels per day of crude oil distillation; 7,000 barrels per day catalytic cracking capacity; and 7,000 barrels per day reforming capacity.

## 29 SCIENCE AND TECHNOLOGY

Lebanon's advanced technology is limited to oil refining, the facilities for which were installed by international oil companies. The National Council for Scientific Research, established in Beirut in 1962, draws up national science policies and fosters research in fundamental and applied research. The council operates a marine research center at Al-Batrun. Seven colleges and universities in Beirut offer degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 30% of college and university enrollments.

## 30 DOMESTIC TRADE

Trade is by far the most important sector of the Lebanese economy. Before the 1975–91 civil war, Beirut was an important commercial center of the Middle East. During the first year of civil violence alone, 3,600 commercial establishments were destroyed, burned, or looted. Reconstruction and returning confidence have improved commercial activities since 1995.

The main trading activity is related to the importation of goods and their distribution in the local market. Distribution is generally handled by traders who acquire sole right of import and sale of specific trademarks, and although competition is keen, the markup tends to be high. Distribution of local products is more widely spread among traders. Franchising has become popular with major firms representing the restaurant, hotel, and clothing industries.

Prices are generally controlled by the Consumer Protection Department of the Ministry of Economy and Trade. Retail credit is common, and advertising has developed rapidly in motion picture theaters and the press.

Government offices are generally open from 8 AM to 2 PM Monday through Thursday, and from 8 AM to 12:30 PM on Friday. Most banks are open with similar hours, occasionally with a half-day on Saturday as well. Private businesses and shops have varying hours, sometimes exceeded in a 40-hour workweek.

## 31 FOREIGN TRADE

Foreign trade has been important in the economic life of Lebanon as a source of both income and employment. Some 40% of total exports are actually re-exports, principally machinery, metal products, foods, wood products, textiles, and chemicals.

The most expensive products that Lebanon exports are gold, silverware, jewelry, and precious stones (21%). Other exports include fruits, nuts and vegetables (10.5%), scrap metal (7.2%), and printed matter (4.5%). Major imports include food (29%), machinery and transport equipment (28%), consumer goods (18%), and chemicals (9%).

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Saudi Arabia	78	165	-87
United Arab Emirates	75	48	27
Switzerland	51	432	-423
United States	49	458	-613
France	37	527	-625
Syria	26	283	-212
Turkey	23	139	-159
Italy	18	680	-794
Germany	18	520	-590
United Kingdom	11	243	-298
Japan	6	211	-291
China (inc. Hong Kong)	n.a.	287	-277



### 32 BALANCE OF PAYMENTS

Lebanon traditionally maintained a favorable balance of payments, with rising trade deficits more than offset by net earnings from services, transfers of foreign capital, and remittances from Lebanese workers abroad. Although the trade deficit increased substantially between 1977 and 1984, a balance of payments deficit was recorded only for the last two years of the period. By 1985, a surplus of \$249 million was again achieved, with a modest trade recovery following in 1986–87. Hostilities in the industrial and prosperous areas of Lebanon in 1989–90 triggered a substantial outflow of capital and a deficit in the balance of payments. Order was restored in 1991 and a resumption of capital inflows averted larger deficits in the following years. In 1995, net capital inflows offset a large trade deficit to produce a \$256 million surplus in the balance of payments. A large portion of the trade imbalance consists of imports of machinery that should ultimately increase productivity. In 2000, the balance of payments registered a deficit of \$289 million, which compared to a \$267.7 million surplus in 1999.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Lebanon's exports was \$700 million while imports totaled \$6.6 billion resulting in a trade deficit of \$5.9 billion.

### 33 BANKING AND SECURITIES

The Bank of Lebanon, established on 1 April 1964, is now the sole bank of issue. Its powers to regulate and control commercial banks and other institutions and to implement monetary policy were expanded by amendments to the Code of Money and Credit promulgated in October 1973. To encourage the movement and deposit of foreign capital in Lebanon, a bank secrecy law of 1956 forbids banks to disclose details of a client's business even to judicial authorities. There are no restrictions on currency conversions and transfers, and no foreign exchange controls effect trading.

In the late 1990s, the banking sector was undergoing a period of expansion and consolidation with a number of banks listed on the Beirut Stock Exchange. In 1998, over 70 banks were operating in Lebanon with total assets of around \$31 billion. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$35.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 20%.

The Beirut Stock Exchange was officially opened in 1952 as a center in which the few available company shares could be traded. The exchange closed during the civil war but reopened in 1979; however, there was little trading in stock during 1980–81. In 1982, Beirut was chosen as the headquarters of the Arab Stock Exchange Union, reflecting Lebanon's continuing importance as financial center of the Middle East.

In September 1995, the Beirut Stock Exchange reopened after a 12-year closure. Trading began in January 1996, but with just three companies listed, all of them producers of cement or construction material. A fourth company joined in mid-1996. A secondary market was opened to trade shares in the private property company, Solidere. Solidere is developing the destroyed business heart of Beirut. With the secondary market considerably more successful than the stock exchange, plans to list Solidere on the latter have, for the moment, been shelved. In 1997, however, Solidere moved its shares from the secondary market to the Beirut Stock Exchange. An important reason for the move was a plan to cross-list Solidere shares on the Kuwait Stock Exchange. Kuwait said it would do so only if shares were traded on the official

bourse rather than on the secondary market. The Lebanese Stock Exchange authority signed an agreement to cross-list shares not only with Kuwait but also with Egypt from early in 1997. Solidere has a 115 million-125 million GDR (global depository receipt) to be listed on the London Stock Exchange.

In 2001, the stock market remained sluggish, with only 12 companies, including Solidere, listed. Market capitalization was at around \$1.2 billion.

### 34 INSURANCE

Activities of insurance companies are regulated by the National Insurance Council. All insurance companies must deposit a specific amount of money or real investments in an approved bank and must retain in Lebanon reserves commensurate with their volume of business. There are at least 85 insurance companies operating in Lebanon, most of them national insurance companies. In 1999, there was \$134 million spent on insurance in Lebanon.

### 35 PUBLIC FINANCE

The annual budget of the central government must be approved by the National Assembly. The Lebanese government annually faces the formidable problem of financing a massive deficit resulting from heavy financial obligations and huge shortfalls in revenues. To reduce the deficit, the government has tried to increase revenues by raising taxes and tightening the budget. The government relies heavily on grants and loans from multilateral agencies, Arab governments, and the French to cover the deficit. As a result, the country's total debt reached \$28 billion in 2001, about 150% of total GDP.

The US Central Intelligence Agency (CIA) estimates that in 2001 Lebanon's central government took in revenues of approximately \$4.6 billion and had expenditures of \$8.9 billion. Overall, the government registered a deficit of approximately \$4.3 billion. External debt totaled \$8.4 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	100.0%	4,601
Tax revenue	71.9%	3,306
Non-tax revenue	27.9%	1,284
Grants	0.2%	11
EXPENDITURES	100.0%	8,901
General public services	11.7%	1,045
Defense	10.6%	947
Public order and safety	3.8%	343
Education	7.2%	644
Health	2.0%	180
Social security	5.2%	462
Housing and community amenities	1.3%	119
Recreation, cultural, and religious affairs	0.7%	59
Economic affairs and services	15.9%	1,411
Other expenditures	0.8%	71
Interest payments	40.7%	3,620

### 36 TAXATION

A graduated tax is imposed on individual salaries, real profits, and real estate income. Corporations and joint stock companies generally are taxed on net real profits derived in Lebanon at a flat rate of 10%, and 5% on dividends. Also levied are inheritance and gift taxes, social security payroll taxes, flat and graduated property taxes, and a stamp duty.

### 37 CUSTOMS AND DUTIES

Customs duties, based on the Harmonized System of tariffs, depend on the type of product and range from 0–70%, averaging 15%. Lebanon acceded to Arab League's Arab Free Trade Area agreement in 1997 and also has bilateral free trade agreements with Egypt, Kuwait, Syria, and the United Arab Emirates. It also adheres to the Arab League boycott of Israel. Lebanon has applied for World Trade Organization membership and is in negotiations for accession.

### 38 FOREIGN INVESTMENT

Lebanon's liberal investment policies are designed to attract foreign direct investment to foster economic recovery and rebuild its war damaged infrastructure. Some analysts estimated that the rebuilding costs would exceed \$18 billion with construction accounting for a large part of foreign investment. As of 2002, French, Italian, German, British, Korean, and Finnish companies were the predominant investors in Lebanon. Their presence is most strongly felt in the fields of electricity, water, and telecommunications. US-based investment was only \$7 million in 1996, though this had climbed to \$65 million by 1999. In addition to limiting the maximum income tax rate to 10% for foreign investors, the movement of funds in and out of Lebanon is free from taxes, fees, or restrictions. Lebanon also has bilateral trade investment agreements with China and a number of European, East European, and Arab countries.

To conserve cash, the government uses "build, operate, transfer" (BOT) agreements to finance major projects. In 1997 total foreign direct investment (FDI) totaled \$150 million. By 2000 this had nearly doubled to \$297.8 million. In 2001, the annual FDI inflow fell to \$249.3 million. Other forms of capital inflow—remittances, repatriated capital and placements in treasury bills—far outweigh inward FDI.

### 39 ECONOMIC DEVELOPMENT

Since World War II, Lebanon has followed free-enterprise and free-trade policies. The country's favorable geographical position as a transit point and the traditional importance of the trading and banking sectors of the economy helped make Lebanon prosperous by the early 1970s. Lebanon became a center of trade, finance, and tourism by means of a stable currency backed largely with gold, by a conservative fiscal policy, by various incentives for foreign investors, and by minimization of banking regulations.

Lebanon's development went awry in the mid-1970s, as factional conflict, always present in Lebanese society, erupted into open warfare. The loss to the economy was enormous, particularly in Beirut. The reconstruction plan submitted in 1979 by the Council for Development and Reconstruction (CDR) envisaged total expenditures of LL22 billion for rebuilding, including LL10 billion in the public sector and LL12 billion in the private sector. The cost of new housing and repair of damaged homes was estimated at LL4.5 billion, and of major road construction at LL1.5 billion. Redevelopment of the port of Beirut and reconstruction of Beirut airport were begun under the program.

In November 1979, Saudi Arabia and six other oil-producing Arab countries promised to contribute \$2 billion for Lebanon's reconstruction effort over a five-year period, but only \$381 million had been provided by October 1987. (After Israel invaded Lebanon in June 1982, the Arab countries decided to withhold future funds until Israeli forces had withdrawn completely.)

Under the leadership of prime minister Rafiq al-Hariri, Lebanon embarked on the Horizon 2000 program in 1993. Areas of major activity targeted by the plan were the rehabilitation of telecommunications, electricity grids, highways, sewage, waste management, water networks, renovation of the Beirut

International Airport, harbor, education, and housing. The plan also called for investment in commercial facilities that will reestablish Beirut as an international business center in competition with Hong Kong and Singapore. The government established a private company, Solidere, to carry out the reconstruction and development of downtown Beirut. No investor can hold more than a 10% share in the company. The parliament also established a public company, Elyssar, for developing southwest Beirut. Under the government's five-year program (2001–2005) the "three pillars" of reform were affirmed by the Hariri government to be 1) economic revival and sustained growth with the private sector as the engine of growth; 2) fiscal consolidation and administrative reform; and 3) monetary, financial and price stability.

### 40 SOCIAL DEVELOPMENT

A government social security plan is intended to provide sickness and maternity insurance, accident and disability insurance, family allowances, and end-of-service indemnity payments. The employer contributes 8.5% of payroll, while the employee and government make no contribution. The system provides lump sum payments only for retirement, disability, and survivor benefits. Foreigners employed in Lebanon are entitled to benefits if similar rights are available for Lebanese in their home countries. Family allowances are provided for households with children and non-working wives. Voluntary social work societies also conduct relief and welfare activities.

Careers in government, the professions, and, less commonly, business are open to women. However, in some segments of society, social pressure prevents them from taking full advantage of employment opportunities. Lebanese citizenship is passed on only by fathers to their children. The children of Lebanese women married to foreigners are unable to secure citizenship. Many of the religious laws governing family and personal status discriminate against women. Despite these circumstances, there are a growing number of women in business and in government. Domestic abuse and violence affects a significant percentage of women.

Human rights abuses include arbitrary arrest and detention and the use of excessive force and torture. Prison conditions are substandard and include severe overcrowding. Palestinian groups operate within Lebanon in autonomous refugee camps. Human rights organizations are allowed to operate freely.

### 41 HEALTH

As of 1999, there were an estimated 2.1 physicians and 2.7 hospital beds per 1,000 people. The Lebanese Ministry of Health's review of hospital use identified the major health problems as follows: hypertension, diabetes, and asthma, in addition to eye and ear diseases, cardiac conditions, and dermatological problems. In 2000, 100% of the population had access to safe drinking water and 99% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 8.2 and 14.7 per 1,000 people. About 61% of married women (ages 15 to 49) used contraception as of 2000. Life expectancy in 2000 was 70 years and the infant mortality rate was 26 per 1,000 live births. The fertility rate was 2.3 births per childbearing woman. The maternal mortality rate in 1998 was 100 per 100,000 live births. In 1999, immunization rates for children up to one year old included diphtheria, pertussis, and tetanus, 94%, and measles, 88%. Vitamin deficiencies are a problem; 25.7% of all school-age children have goiter (1996).

Between 1982 and 1990, there were approximately 144,000 war-related deaths due to the Israeli invasion. In fact, the major causes of death between 1987–1991 were violence and acts of war. War has had a significant impact on the development of

many Lebanese children. Many children suffer from posttraumatic stress disorders.

The HIV-1 prevalence in 1999 was 0.1 per 100 adults. In 1996, there were 91 HIV cases. Malaria, polio, and neonatal tetanus are rare. In 1999, there were 24 cases of tuberculosis per 100,000 people.

## 42 HOUSING

Despite substantial construction activity since World War II and a boom in construction during the 1960s, which increased the number of housing units to 484,000 in 1970, there was a housing shortage, especially of low-cost residential units, in the early 1970s. The situation was aggravated by the civil war (ending in 1990) and subsequent factional strife in which half of the country's real estate was severely damaged or destroyed. About 750,000 people were displaced. Under the CDR 1983–91 plan, nearly 30% of total expenditures were allocated to build new dwellings and to restore war-damaged houses. According to the last available information for 1980–88, total housing units numbered 820,000 with 3.3 people per dwelling. Housing needs until the year 2000 have been estimated at 400,000 units.

## 43 EDUCATION

Lebanon's illiteracy rate is relatively low for the Middle East. For the year 2000, adult illiteracy rates were estimated at 13.9% (males, 7.7%; females, 19.6%). Free primary education was introduced in 1960, but about two-thirds of all students attend private schools. In 1997 there were 382,309 pupils in 2,160 primary schools. In the same year, there were 347,850 secondary school students. The pupil-teacher ratio at the primary level was 19 to 1 in 1999. In the same year, 71% of primary-school-age children were enrolled in school, while 70% of those eligible attended secondary school. In 1996, the total enrollment for all higher-level institutions was 81,588 students with 10,444 instructors. Leading universities include the American University in Beirut; St. Joseph University; the Lebanese (State) University; the University of the Holy Spirit; and the Arab University of Beirut. As of 1999, public expenditure on education was estimated at 2.1% of GDP.

## 44 LIBRARIES AND MUSEUMS

Lebanon has about a dozen sizable libraries with specialized collections of books, manuscripts, and documents. Most libraries are in Beirut, but there are also collections at Sidon and Harissa. The National Library of Lebanon, founded in 1921, had more than 100,000 volumes when it was destroyed at the beginning of the war in 1975. By 2002, it had restored that collection to 150,000 volumes. The Arab University Library has 200,000 volumes, but the largest library is that of the American University in Beirut, with 546,000 volumes. St. Joseph University has several specialized libraries, including the Bibliothèque Orientale, with 400,000 volumes. The library of the St. John Monastery in Khonchara, founded in 1696, contains the first known printing press in the Middle East. The Université Saint-Esprit de Koslik in Jounieh has the largest provincial collection with 200,000 volumes.

The National Museum of Lebanon (1920), in Beirut, has a collection of historical documents and many notable antiquities, including the sarcophagus of King Ahiaram (13th century BC), with the first known alphabetical inscriptions. The American University Museum also has an extensive collection of ancient artifacts. Beirut also houses the Museum of Fine Arts and the Museum of Lebanese Prehistory of St. Joseph University. There is a small Khalil Gibran museum in Bghori.

## 45 MEDIA

Before the civil war, Beirut was an international communications center with an earth satellite station and two oceanic cables

linking it to Marseille and Alexandria. As of 1999, the rebuilding of Lebanon's telecommunications system was well under way. Government-controlled Radio Lebanon broadcasts in Arabic, and Tele-Liban broadcasts on three channels in Arabic, French, and English. Some 700,000 mainline telephones were estimated to be in use as of 1999, with an additional 580,000 cellular phones in use as well.

In 2001 there were 36 radio stations and 7 television stations. The government owns one radio and one television station and the rest are privately owned. In 2000, there were 687 radios and 335 television sets for every 1,000 people. In 2001, there were 300,000 Internet subscribers served by 22 service providers.

Historically, Lebanon has had the freest press in the Arab world. Even during the civil war some 25 newspapers and magazines were published without restriction. Newspapers freely criticize the government but refrain from criticizing political groups that have the power to retaliate forcibly. As of 2002, the largest Arabic dailies included *An-Nahar* (*The Day*, 77,600), *Al-Anwar* (*Lights*, 58,675), *As-Safir* (*The Ambassador*, 50,000), *Al-Amal* (*Hope*, circulation 35,000), *Al Hayat* (*Life*, 31,030), *Al-Sharq* (36,000), and *Al-Liwa* (*The Standard*, 15,000). Also influential are the French-language papers *L'Orient-Le Jour* (23,000), *Le Soir* (16,500), and *Le Réveil* (10,000).

Though the constitution provides for freedom of the press, the government uses several means short of censorship to control freedom of expression. The Surete Generale is authorized to approve all foreign materials, including magazines, plays, books, and films. The law prohibits attacks on the dignity of the head of state or foreign leaders, prosecuting through a special Publications Court. A 1991 security agreement between Lebanon and Syria effectively prohibits the publication of any material deemed harmful to either state.

## 46 ORGANIZATIONS

There are chambers of commerce and industry in Beirut, Tripoli, Sidon, and Zahlah. There are Rotary and Lion's Clubs in Beirut. Lebanon has an Automobile and Touring Club, a French Chamber of Commerce, and an Association of Lebanese Industries.

The Amel Association is a major social welfare organization providing emergency relief and social, medical, and educational services. The National Council for Scientific Research offers major support for promoting scientific study and research. A smaller organization, the Nadim Andraos Foundation, also provides financial support for medical and scientific studies. The Red Cross is also active in the country.

National youth organizations include the Lebanese Scout Federation, Lebanese Youth and Student Movement for the United Nations, the Progressive Youth Organization, the Democratic Youth Union, and YMCA/YWCA.

## 47 TOURISM, TRAVEL, AND RECREATION

Before the civil war, Lebanon's antiquities—notably at Sidon, Tyre, Byblos, and Ba'albek—combined with a pleasant climate and scenery to attract many tourists (more than 2 million in 1974), especially from other Arab countries. During the war, however, fighting and bombing destroyed or heavily damaged major hotels in Beirut and reduced the number of tourists to practically zero. The country has been rebuilding slowly. Most attractions are historical sites in Tyre and Tripoli. The temple complex in Baalbek, which includes the remains of the temples of Jupiter, Bacchus, and Venus, is one of the largest in the world.

Tourists who are not Arab nationals need visas to enter Lebanon. In 2000, Lebanon had 741,648 tourist arrivals, a 10% increase over the previous year. Hotel rooms numbered 14,500, with 25,450 bed-places and an occupancy rate of 28%. That year tourist receipts totaled \$742 million.

In 2002, the US Department of State estimated the cost of staying in Beirut at \$210 per day.

#### 48 FAMOUS LEBANESE

Khalil Gibran (Jibran, 1883–1931), a native of Lebanon, achieved international renown through his paintings and literary works. He is best known for his long poem *The Prophet*. Charles Habib Malik (1906–87), for many years Lebanon's leading diplomat, was president of the 13th UN General Assembly in 1958/59.

#### 49 DEPENDENCIES

Lebanon has no territories or colonies.

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# MALAYSIA

**CAPITAL:** Kuala Lumpur

**FLAG:** The national flag consists of 14 alternating horizontal stripes, of which 7 are red and 7 white; a gold 14-pointed star and crescent appear on a blue field in the upper left corner.

**ANTHEM:** *Negara Ku (My Country)*.

**MONETARY UNIT:** The Malaysian ringgit (M\$), or dollar, is divided into 100 sen, or cents. There are coins of 1, 5, 10, 20, and 50 sens and 1 ringgit, and notes of 1, 5, 10, 20, 100, 500, and 1,000 ringgits. M\$1 = US\$0.2652 (or US\$1 = M\$3.77) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system became the legal standard in 1982, but some British weights and measures and local units also are in use.

**HOLIDAYS:** National Day, 31 August; Christmas, 25 December. Movable holidays include Vesak Day, Birthday of His Majesty the Yang di-Pertuan Agong, Hari Raya Puasa, Hari Raya Haji, the 1st of Muharram (Muslim New Year), Milad an-Nabi, Dewali, Thaipusam, and the Chinese New Year. Individual states celebrate the birthdays of their rulers and other holidays observed by native ethnic groups.

**TIME:** 7 PM = noon GMT.

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

Situated in Southeast Asia, Malaysia, with an area of 329,750 sq km (127,317 sq mi), consists of two noncontiguous areas: Peninsular Malaysia (formerly West Malaysia), on the Asian mainland, and the states of Sarawak and Sabah, known together as East Malaysia, on the island of Borneo. Comparatively, the area occupied by Malaysia is slightly larger than the state of New Mexico. Peninsular Malaysia, protruding southward from the mainland of Asia, comprises an area of 131,587 sq km (50,806 sq mi), extending 748 km (465 mi) SSE-NNW and 322 km (200 mi) ENE-WSW. It is bordered on the N by Thailand, on the E by the South China Sea, on the S by the Strait of Johore, and on the W by the Strait of Malacca and the Andaman Sea, with a total boundary length of 2,068 km (1,285 mi). Sarawak, covering an area of 124,449 sq km (48,050 sq mi), on the northwest coast of Borneo, extends 679 km (422 mi) NNE-SSW and 254 km (158 mi) ESE-WNW. It is bounded by Brunei on the N, Sabah on the NE, Indonesia on the E and S, and the South China Sea on the W. Sarawak's total boundary length is 2,621 km (1,629 mi). Situated at the northern end of Borneo, Sabah has an area of 74,398 sq km (28,725 sq mi), with a length of 412 km (256 mi) E-W and a width of 328 km (204 mi) N-S. To the N is the Balabac Strait, to the NE the Sulu Sea, to the SE the Celebes Sea, to the S Indonesia, to the SW Sarawak, and to the W the South China Sea, with a total boundary length of 2,008 km (1,248 mi). The total boundary length of Malaysia is 7,344 km (4,563 mi), of which 4,675 km (2,905 mi) is coastline.

Malaysia claims several atolls of the Spratly Island group in the South China Sea. The claim, in a region where oil is suspected, is disputed by China, the Philippines, Taiwan, and Vietnam. Malaysia's capital city, Kuala Lumpur, is located in the western part of Peninsular Malaysia.

## <sup>2</sup>TOPOGRAPHY

Four-fifths of Peninsular Malaysia is covered by rainforest and swamp. The northern regions are divided by a series of mountain ranges that rise abruptly from the wide, flat coastal plains. The

highest peaks, Gunong Tahan (2,190 m/7,185 ft) and Gunong Korbu (2,183 m/7,162 ft), are in the north central region. The main watershed follows a mountain range about 80 km (50 mi) inland, roughly parallel to the west coast. The rivers flowing to the east, south, and west of this range are swift and have cut some deep gorges, but on reaching the coastal plains they become sluggish. The western coastal plain contains most of the country's population and the main seaports, George Town (on the offshore Pulau Pinang) and Kelang (formerly Port Swettenham). The eastern coastal plain is mostly jungle and lightly settled. It is subject to heavy storms from the South China Sea and lacks natural harbors.

Sarawak consists of an alluvial and swampy coastal plain, an area of rolling country interspersed with mountain ranges, and a mountainous interior. Rain forests cover the greater part of Sarawak. Many of the rivers are navigable. Sabah is split in two by the Crocker Mountains, which extend north and south some 48 km (30 mi) inland from the west coast, rising to over 4,100 m (13,450 ft) at Mt. Kinabalu, the highest point in Malaysia. Most of the interior is covered with tropical forest, while the western coastal area consists of alluvial flats making up the main rubber and rice land.

## <sup>3</sup>CLIMATE

The climate of Peninsular Malaysia is equatorial, characterized by fairly high but uniform temperatures (ranging from 23° to 31°C/73° to 88°F throughout the year), high humidity, and copious rainfall (averaging about 250 cm/100 in annually). There are seasonal variations in rainfall, with the heaviest rains from October to December or January; except for a few mountain areas, the most abundant rainfall is in the eastern coastal region, where it averages over 300 cm (120 in) per year. Elsewhere the annual average is 200–300 cm (80–120 in), the northwestern and southwestern regions having the least rainfall. The nights are usually cool because of the nearby seas. The climate of East Malaysia is relatively cool for an area so near the equator.

## 4 FLORA AND FAUNA

About 70% of Malaysia consists of tropical rain forest. In Peninsular Malaysia, camphor, ebony, sandalwood, teak, and many varieties of palm trees abound. Rain forest fauna includes seladang (Malayan bison), deer, wild pigs, tree shrews, honey bears, forest cats, civets, monkeys, crocodiles, lizards, and snakes. The seladang weighs about a ton and is the largest wild ox in the world. An immense variety of insects, particularly butterflies, and some 508 breeding species of birds are found.

On Sabah and Sarawak, lowland forests contain some 400 species of tall dipterocarps (hardwoods) and semihardwoods; fig trees abound, attracting small mammals and birds; and groves are formed by the extensive aerial roots of warangen (a sacred tree to indigenous peoples). As altitude increases, herbaceous plants—buttercups, violets, and valerian—become more numerous, until moss-covered evergreen forests are reached from 1,520 to 1,830 m (5,000–6,000 ft). Butterflies, brilliantly colored birds of paradise, and a great wealth of other insect and bird species inhabit the two states.

## 5 ENVIRONMENT

The Environmental Quality Act of 1974 and other environmental laws are administered by the Division of Environment of the Ministry of Science, Technology, and Environment. Discharge of untreated sewage has contaminated the nation's water; the most heavily polluted areas are along the west coast. Malaysia's water pollution problem also extends to its rivers, of which 40% are polluted. The nation has 580 cu km of water with 76% used for farming and 13% used for industrial activity. Malaysia's cities produce an average of 1.5 million tons of solid waste per year.

Clean-air legislation limiting industrial and automobile emissions, was adopted in 1978. However, air pollution from both of these sources is still a problem. In the mid-1990s, Malaysia ranked among 50 nations with the world's highest industrial carbon dioxide emissions, which totaled 70.5 million metric tons per year, a per capita level of 3.74 metric tons per year. Discharge of oil by vessels in Malaysian waters is prohibited.

Of Malaysia's total land area, 59% is tropical rainforest. Malaysia has the world's fifth most extensive mangrove area, which total over a half a million ha (over 1.2 million acres). The country's forests are threatened by commercial interests.

In 2001, 42 of the nation's mammal species and 34 bird species were endangered. Endangered species in Malaysia include the orangutan, tiger, Asian elephant, Malayan tapir, Sumatran rhinoceros, Singapore roundleaf horseshoe bat, four species of turtle (green sea, hawksbill, olive ridley, and leatherback), and two species of crocodile (false gavia and Siamese).

## 6 POPULATION

The population of Malaysia in 2003 was estimated by the United Nations at 24,425,000, which placed it as number 44 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 103 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.93%, with the projected population for the year 2015 at 29,563,000. The population density in 2002 was 74 per sq km (191 per sq mi).

It was estimated by the Population Reference Bureau that 57% of the population lived in urban areas in 2001. The capital city, Kuala Lumpur, had a population of 1,348,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 2.8%.

## 7 MIGRATION

Not until British economic enterprise first attracted foreign labor after 1800 did large-scale Chinese, Indian, and Malaysian migration (nonnative Indonesians and Borneans) take place. The early migrants were transients: in 1921, only 20.3% of the Chinese and 11.9% of the Indians were Malayan-born. However, migration data for subsequent years show a general tendency toward permanent settlement by these nonindigenous portions of the population. The percentages of the total Chinese population reporting Peninsular Malaysia as their birthplace were 29.1%, 62.5%, and 74.4% for the years 1931, 1947, and 1957, respectively; the percentages of Indians reporting their birthplace as Peninsular Malaysia were 21.1%, 51.4%, and 64.6% for the same respective years. By 1953, the Malays were a minority in their own territory. The government enacted legislation restricting further immigration, and by 1968 the Malays formed slightly more than 50% of the population. Regulations which took effect in 1968 concerning passports and border crossings between Malaysia and Indonesia and between Malaysia and the Philippines were also intended to restrict immigration. By 1970, more than four-fifths of the Chinese and Indians were born in Peninsular Malaysia. Between 1975 and 1996, Malaysia hosted more than 250,000 Indo-Chinese refugees and permitted the local integration of some 45,000 Filipino refugees in Sabah. Between 1975 and 1989, more than 250,000 Vietnamese refugees found asylum in Malaysia; the vast majority subsequently migrated to other countries. Some 3,797 Vietnamese refugees still remain in Malaysia, but are to return home according to government authorities. The legal position of the 5,000 or so Muslims from Myanmar, who possess no documentation as citizens of Myanmar, had not been addressed by the government as of 1999. The net migration rate in 1999 was zero; however, this figure does not reflect the number of illegal immigrants, including large numbers from Indonesia and smaller numbers from the Philippines, Bangladesh, Myanmar (Burma), China, and India.

In 2000 there were 1,392,000 migrants living in Malaysia, including 50,500 refugees. The net migration rate in that year was 0.4 migrants per 1,000. These numbers do not reflect the unknown number of illegal immigrants from other countries in the region. The government views the immigration level as too high, but the emigration level as satisfactory.

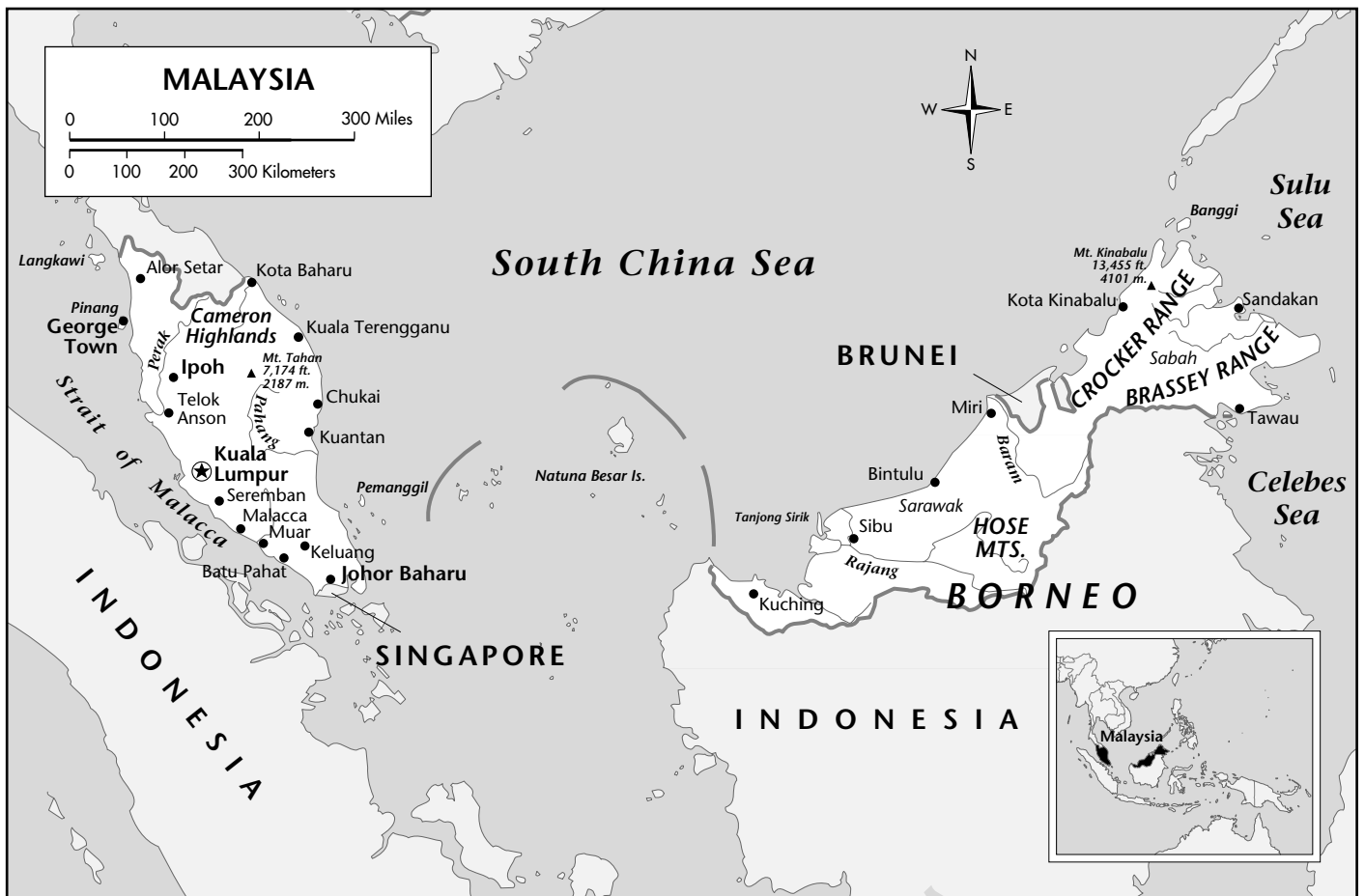
## 8 ETHNIC GROUPS

The population of Malaysia consists of three main ethnic groups—Malays, Chinese, and peoples of the South Asian subcontinent. Malays and other indigenous groups are known as Bumiputras ("sons of the soil"). Estimates for 2000 reported the following distribution: Malays and other indigenous groups (Bumiputras), 58%; Chinese, 24%; persons of Indian descent, 8%; and other groups, 10%. Malays predominate in the rural areas, while the Chinese are concentrated in urban and mining areas, where they control much of the nation's wealth; enmity between the two communities has occasionally erupted into violence. The non-Malay indigenous groups on the peninsula are collectively called the Orang Asli (aborigines) and number about 50,000.

Non-Malay indigenous tribes constitute about half of Sarawak's residents; the largest indigenous group consists of the Sea Dayaks, or Ibans, followed by the Land Dayaks, or Bidayuh. The majority of Sabah's population consists of indigenous peoples, principally Kadazans, Bajaus, and Muruts. The balance is dominated by Chinese.

## 9 LANGUAGES

Bahasa Malaysia, or Malay, is the national language and the lingua franca of all Malaysia. The traditional Bahasa Malaysia script is Jawi, which derives from Arabic script, but Rumi, based



**LOCATION:** Peninsular Malaysia: 1°17' to 6°43' N; 99°38' to 104°39' E. Sarawak: 0°52' to 4°59' N; 109°38' to 155°43' E. Sabah: 4°6' to 7°22' N; 115°7' to 119°17' E.  
**BOUNDARY LENGTHS:** Peninsular Malaysia: Thailand, 506 kilometers (316 miles); coastline, 2,068 kilometers (1,292 miles). East Malaysia: Brunei, 381 kilometers (238 miles); Indonesia, 1,728 kilometers (1,080 miles); coastline, 2,607 kilometers (1,629 miles). Total boundary length, land and coastline: 7,290 kilometers (4,555 miles). **TERRITORIAL SEA LIMIT:** 12 miles.

on the Roman alphabet, is officially used in government, education, and business. English is widely employed in government and commerce and is a compulsory subject in all schools. Chinese (notably the Mandarin, Cantonese, Hokkien, Hakka, Hainan, and Foochow dialects), Tamil, Telugu, Malalam, Punjabi, and Thai are spoken. In addition, in East Malaysia several indigenous languages are spoken, the largest of which are Iban and Kadazan. Most Malaysians are bilingual or multilingual.

## 10 RELIGIONS

Islam is the official religion. The head of state, the *yang di-pertuan agong*, is also the national leader of the Islamic faith. The constitution, however, guarantees freedom to profess, practice, and propagate other religions. Religious lines generally follow ethnic lines. Almost all Malays are Muslims; most Indians are Hindus, with a substantial minority of Muslims, Sikhs, and Parsees; and most Chinese are Confucian-Buddhists, with a minority Muslim representation. Christianity has won some adherents among the Chinese and Indians. The indigenous peoples of Sabah and Sarawak are still largely animist, although many have become Christian. Shamanism is also practiced on East Malaysia.

According to a 2000 government census, about 60% of the population are Muslim, 19% Buddhist, 9% Christian, and 6% Hindu. About 3% practice Confucianism, Taoism, or other

traditional Chinese religions. Other faiths include animism, Sikhism, and the Baha'i Faith.

## 11 TRANSPORTATION

In 2002, the highway system of Malaysia consisted of 64,672 km (40,187 mi) of roads, of which 40,707 km (25,295 mi) were paved, including 1,192 km (741 mi) of expressways. The major highways on Peninsular Malaysia run north-south along the east and west coasts; east-west links connect George Town and Kota Bharu in the north and Kuala Lumpur and Kuantan farther south. As of 1991, (according to the Malaysian Highway Authority) the East-West Highway (Federal Route 2) crossing Peninsular Malaysia, as well as the Klang Valley Expressway connecting Kuala Lumpur to Port Klang were completed. The 924 km (574 mi) North-South Highway along the west coast of Peninsular Malaysia connects Thailand and Singapore. In 2000, registered vehicles included 2,639,423 automobiles and 954,737 commercial vehicles.

The national Malayan Railway Administration operates some 1,801 km (1,119 mi) of Peninsular Malaysia, which provides links to Thailand, Singapore, and eastern parts of the peninsula. Sabah State Railways provides diesel service along the west coast and in the interior for 136 km (85 mi). There are no railroads in Sarawak.

There are 7,296 km (4,533 mi) of waterways in all of Malaysia: 3,209 km (1,994 mi) in Peninsular Malaysia; 1,569 km (975 mi) in Sabah; and, 2,518 km (1,565 mi) in Sarawak.

The three leading ports, all located on the busy Strait of Malacca, are Kelang (the port for Kuala Lumpur), Johor Baharu, and George Town. Kuching is the main port for Sarawak, and Kota Kinabalu the main port for Sabah. The Malaysian merchant fleet in 2002 consisted of 363 ships with a combined capacity of 4,952,119 GRT.

Also in 2001, there were 116 airports, 35 of which had paved runways. Most international flights enter or leave Malaysia through Kuala Lumpur International Airport. Other principal airports include Kota Kinabalu, Kuching, and Penang. The Malaysian Airline System (MAS) provides domestic service to most major cities of the peninsula and to Sarawak and Sabah. In 2001, 16,310,500 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The ancestors of the Malays came down from South China and settled in the Malay Peninsula about 2000 BC. Sri Vijaya, a strong Indo-Malay empire with headquarters at Palembang in southern Sumatra, rose about AD 600 and came to dominate both sides of the Strait of Malacca, levying tribute and tolls on the ships faring between China and India. In the 14th century, however, Sri Vijaya fell, and Malaysia became part of the Majapahit Empire centered in Java. About 1400, a fugitive ruler from Temasek (now Singapore) founded a principality at Malacca (now Melaka) and embraced Islam. It was at Malacca that the West obtained its first foothold on the peninsula. At the height of glory and power, the Malacca principality fell to Portugal in 1511. In their turn, the Portuguese were driven out by the Dutch in 1641. The British East India Company laid the groundwork for British control of Malaya in 1786 by leasing from the sultan of Kedah the island of Pinang, off the west coast of Malaya, about 800 km (500 mi) north of Singapore. Fourteen years later, it obtained from him a small area on the mainland opposite Pinang. In 1819, Sir Thomas Stamford Raffles obtained permission to establish a settlement at Singapore; in 1824, by agreement and financial settlement, the island was ceded to the British East India Company. In the following year, the Dutch settlement at Malacca was ceded to Great Britain. Pinang, Singapore, and Malacca were combined under British rule in 1829 to form the Straits Settlements. The states of Perak and Selangor in 1874 secured treaties of protection from the British. Similar treaties were subsequently made with the sultans of Negri Sembilan (1874–89) and Pahang (1888). In 1895, these four states became a federation (the Federated Malay States), with a British resident-general and a system of centralized government. In 1909, under the Bangkok Treaty, Siam (now Thailand) ceded to British control the four northern states of Kelantan, Trengganu, Perlis, and Kedah. These four, together with Johor, which in 1914 was made a British protectorate, became known as the Unfederated Malay States. Separate British control was extended to Sabah, then known as North Borneo, in 1882. Six years later, North Borneo and Sarawak each became separate British protectorates. Tin mining and rubber grew rapidly under British rule, and large numbers of Chinese and Indian laborers were imported, respectively, for these industries.

Japanese forces invaded Malaya and the Borneo territories in December 1941 and occupied them throughout World War II. Within a year after the Japanese surrender in September 1945, the British formed the Malayan Union, consisting of the nine peninsular states, together with Pinang and Malacca; also in 1946, Singapore and the two Borneo protectorates became separate British crown colonies. The Malayan Union was succeeded by the Federation of Malaya on 1 February 1948. Over the next decade, the British weathered a Communist insurgency, as Malaya progressed toward self-government. On 31 August 1957, the Federation of Malaya became an independent member of the Commonwealth of Nations. On 1 August 1962, Great

Britain and Malaya agreed in principle on the formation of the new state of Malaysia—a political merger of Singapore and the British Borneo territories (Sarawak, Brunei, and North Borneo) with the Federation. On 1 September 1962, by a 70% plurality, Singapore voted in a referendum for incorporation in the proposed Malaysia, but an abortive revolt staged by Brunei's ultranationalist Brunei People's Party in December 1962 eliminated the sultanate from the proposed merger. On 16 September 1963, the Federation of Malaya, the State of Singapore, and the newly independent British colonies of Sarawak and Sabah merged to form the Federation of Malaysia ("Federation" was subsequently dropped from the official name). On 7 August 1965, Singapore seceded from the Federation and established an independent republic. From the outset, Indonesia's President Sukarno attempted by economic and military means to take over the young nation as part of Indonesia; cordial relations between the two countries were not established until after Sukarno's ouster in 1966. Internal disorders stemming from hostilities between Chinese and Malay communities in Kuala Lumpur disrupted the 1969 national elections and prompted the declaration of a state of emergency lasting from mid-1969 to February 1971. Successive governments managed to sustain political stability until 1987, when racial tensions between Chinese and Malay increased over a government plan to assign non-Mandarin-speaking administrators to Chinese-language schools.

In October 1987 the Malaysian government, under provisions of the Internal Security Act (ISA) which allows detention without trial on grounds of national security, arrested 79 political and civil leaders and closed four newspapers in an effort to stifle dissent. The government called its actions necessary to prevent racial violence, but many prominent Malaysians, including Tunku Abdul Rahman, the country's first prime minister, condemned the actions. At the same time the government clamped down on all news sources disseminating what the government considered false news, and new legislation denied licensing to news sources not conforming to Malaysian values. In 1981 Dato' Hussein bin Onn was succeeded as prime minister by Sato' Sei Dr. Mahathir Mohamad, whose leadership came under criticism from within the United Malays National Organization (UMNO) and other political parties as racial tensions increased. Part of the challenge to Dr. Mahathir's party leadership came in the form of a legal suit claiming that some of the delegates to the UMNO elections of 1987 had not been legally registered, therefore, the election should be declared null and void. The High Court ruled that due to the irregularities UMNO was an unlawful society and that in effect the election was invalid. Dr. Mahathir held that the ruling did not affect the legal status of the government; he was supported by the ruling Head of State, Tunku Mahmood Iskandar. In 1988 Dr. Mahathir formed a New UMNO, Umno Baru, and declared that party members would have to reregister to join. (Umno Baru was thereafter referred to as UMNO.) Under provisions of the ISA four people linked to the Parti Bersatu Sabah (PBS) were detained over alleged involvement in a secessionist plot in Sabah in June 1990. In July 1990 elections the PBS won 36 of 48 seats in the Sabah State Legislative Assembly. Prior to the general election of 1990 the PBS aligned itself with the opposition, which had formed an informal electoral alliance, Gagasan Rakyat (People's Might). The National Front (BN) won 127 of the 180 seats, thus maintaining control of the House of Representatives with the two-thirds majority necessary to amend the Constitution. The opposition increased its seats from 37 to 53. In 1992 the People's Might registered as a political organization and Tengku Razaleigh was elected chairman.

In 1990 the restructuring of the portfolio of the Ministry of Trade and Industry was rationalized into two new Ministries, the Ministry of International Trade and Industry (MITI) and the



Ministry of Domestic Trade and Consumer Affairs (MDTCA). In an action that was widely regarded as politically motivated, Datuk Seri Joseph Pairin Kitingan, chief minister of Sabah and president of the PBS, was arrested in January 1991 and charged with corruption, then released on bail. After subsequent meetings with Dr. Mahathir it was announced that the PBS state government had proposed power sharing with United Sabah National Organization (USNO). The head of USNO, Tun Mustapha Harun, resigned from USNO and joined UMNO. This switch necessitated a by-election and in May 1991 UMNO took its first seat in Sabah. The rise of Dayak nationalism in Sarawak was considered as less of a threat after the 1991 state elections. The Sarawak Native People's Party (PBDS, Parti Bansa Dayak Sarawak) retained only 7 of the 15 seats it had won in the 1987 election. A High Court ruling in 1991 upheld a ruling by the Ministry of Home Affairs banning the public sale of party newspapers. Speculation was that by targeting limited media outlets the government was muzzling the opposition press.

In 1991 UMNO raised the issue of the alleged abuse of privilege by Malaysia's nine hereditary rulers. A resolution tabled in 1990 had demanded the rulers be restrained from interfering in politics. In November 1992 the issue of the constitutional status of the sultans again arose when it was proposed that the rulers' immunity from prosecution be removed. The cases in point were the recent alleged assault on a hockey coach by the sultan of Johore, and the 1981 incident in which the sultan of Johore (before he became sultan) was convicted of homicide but pardoned by his father the previous sultan. In January 1993 these proposed amendments to the constitution were passed. Immediately after passage of the bill royal privileges other than those sanctioned and allocations not expressly provided in the constitution were withdrawn. The nine hereditary rulers first rejected the constitutional changes; however, they agreed to a compromise formula on the bill that effectively removed the blanket legal immunity granted to them. The compromise upheld the constitutional stipulation of royal assent for laws affecting the monarchy. Criticism arose over Dr. Mahathir's handling of this situation as it emphasized the antipathy between his authoritarian style and the "Malay way." These constitutional changes also highlighted Dr. Mahathir's previous moves to strengthen executive power at cost of the judiciary, to consolidate UMNO's control of the legislature, and to control the press. On 17 January 1994 Sabah's chief minister, Datuk Joseph Pairin Kitingan, was found guilty of corruption. The fine imposed on him fell short of the minimum required to disqualify him from office. Although PBS won the Sabah polls in February 1994, Pairin resigned as the PBS's leading members joined the National Front, and the Sabah wing of UMNO (with 18 of 48 seats) was about to be installed. In August 1994 the government moved to ban the radical Islamic sect, Al-Arqam.

Between 1978 and 1989 Malaysia provided asylum to about 230,000 Vietnamese refugees as they awaited resettlement in the West. In March 1989 Malaysia responded to the continuing influx of refugees and the Western nations' slow efforts to place them with a plan to screen refugees in order to separate economic migrants from political refugees. This policy was confirmed by the United Nations. In its biggest victory ever, the ruling National Front captured 162 parliamentary seats out of a possible 192 in the general election held 25 April 1995. The coalition won 64% of the popular vote and easily retained its two-thirds parliamentary majority.

The Asian economic crisis of 1997 affected both the economy and the political landscape in Malaysia. By the beginning of 1998, the Malaysian economy had undergone its first downturn in 13 years, and tensions over the handling of the crisis erupted between Prime Minister Mahathir, an economic isolationist, and his deputy, Anwar Ibrahim, who favored open-market policies. In September 1998, Mahathir removed Anwar from his cabinet and

party posts and imposed currency controls. When Anwar publicly protested these moves and attempted to rally opposition to his former mentor's policies, he was arrested and later tried for corruption and sexual misconduct. In 1999 Anwar was sentenced to six years in prison, and his wife launched a new political party to contest the upcoming national elections.

The economy began to recover by the end of 1998, and the government officially announced that the recession into which it had been plunged was over by August 1999. Responding to an April 2000 deadline for national elections, Mahathir called a snap election in November 1999. Although the arrest of Anwar and his treatment while in custody ignited widespread criticism of Mahathir and his government, the UMNO-led coalition maintained its two-thirds majority in parliament and Mahathir remained in power. However, electoral gains by the Islamic Party of Malaysia (Parti Se-Islam Malaysia or PAS) suggested a significant challenge to the popularity of the government and made PAS the country's largest opposition party.

On 9 March 2001, a wave of intercommunal violence between Malays and ethnic Indians began on the outskirts of Kuala Lumpur, the worst in more than 30 years. Six people, including five of Indian origin, were killed, and over 50 were injured. Most of the wounded were ethnic Indians. Opposition leaders claimed the casualty figures were higher; the government threatened to charge them with sedition (no charges were brought).

In early April 2001, days before public protests were scheduled for the second anniversary of the sentencing of Anwar, 10 opposition leaders were detained under Malaysia's Internal Security Act (ISA). The ISA allows the detention of suspects for up to two years without trial. Most of the detainees were members of the opposition party Keadilan (Justice), founded by Anwar's wife, Wan Azizah. The government used a variety of laws to restrict freedom of expression, and peaceful rallies were broken up by the police. An Anti-ISA Movement (AIM) was formed to work for the repeal of the ISA.

In September 2001, Malaysia and Singapore came to a series of agreements over issues that had strained relations between them for years. Largely prodded by concern over the growing influence of Islam in Malaysian politics, Singapore agreed to a Malaysian proposal that the causeway linking the two countries be demolished and replaced by a bridge and undersea tunnel after 2007. Malaysia agreed to supply water to Singapore after two water agreements expire in 2011 and 2061. Also discussed were disputes over the use of Malaysian-owned railway land in Singapore, and requests by Singapore to use Malaysian air space.

With the rise in popularity of the Islamic Party of Malaysia, Malaysia's image as a moderate Islamic state began to be questioned. In the aftermath of the 11 September 2001 terrorist attacks on the United States, countries in Southeast Asia were asked by the United States to increase their security plans and efforts to combat terrorism. However, many nations have been cautious of a broad sweeping link between Islam and terrorist activities. In May 2002, members of ASEAN met in Kuala Lumpur to form a united anti-terror front (including strengthening laws to govern the arrest, investigation, prosecution, and extradition of suspects), and pledged to set up a strong regional security framework. Alleged militants with suspected ties to Osama bin Laden's al-Qaeda organization have been arrested in Malaysia.

After the UN Security Council passed Resolution 1441 on 8 November 2002, calling on Iraq to disarm itself of weapons of mass destruction (chemical, biological, and nuclear weapons), adhere to all previous UN resolutions, and allow UN weapons inspectors to return to the country, Malaysia supported the authority of the UN in resolving the crisis in Iraq, as opposed to following a possible course of war indicated by the United States. Mahathir stated that any war with Iraq "will lengthen the anti-terrorist campaign." "It will undermine the world economy. It

will create a climate of uncertainty and fear throughout the world," he said.

In June 2002, Mahathir announced that he would resign in October 2003, news that shocked the country. It will be the first transfer of the prime ministerial office in over 20 years. His successor is predicted to be Abdullah Ahmad Badawi, one of three UMNO vice presidents.

### 13 GOVERNMENT

Malaysia is a constitutional monarchy consisting of 13 states, 9 of which were formerly sultanates under British protection and 4 of which (Melaka, Pulau Pinang, Sarawak, and Sabah) were former British settlements ruled by appointed governors.

The constitution, promulgated on 31 August 1957 and subsequently amended, derives from the former Federation of Malaya, with provisions for the special interests of Sabah and Sarawak. It provides for the election of a head of state, the *yang di-pertuan agong*, or paramount ruler, for a single term of five years by the Conference of Rulers. The constitution also provides for a deputy head of state, chosen in the same manner and for the same term.

The Conference of Rulers consists of the nine hereditary sultans. Its consent must be obtained for any law that alters state boundaries; affects the rulers' privileges, honors, or dignities; or extends any religious acts, observances, or ceremonies to the country as a whole. The conference must also be consulted on proposed changes of administrative policy affecting the special position of the Malays or the vital interests of other communities.

The *yang di-pertuan agong*, who must be one of the hereditary sultans, is commander-in-chief of the armed forces and has the power to designate judges for the federal court and the high courts on the advice of the prime minister, whom he appoints. Until January 1984, the paramount ruler had the right to veto legislation by withholding his assent; this right was lost in a constitutional compromise that gave the paramount ruler the right to delay new laws for up to 60 days but also stipulated that, if passed by a two-thirds majority, a bill may become law after six months without his signature.

The *yang di-pertuan agong* from 1979 to 1984 was Ahmad Shah al-Musta'in Billah Ibni al-Marhum, the sultan of Pahang. The leading candidate to succeed him was Idris al-Mutawakil Allahi Shah Ibni al-Marhum, the sultan of Perak, but when Idris died of a heart attack on 31 January 1984, the Conference of Rulers selected Mahmud Iskandar Ibni al-Marhum Sultan Ismail. As crown prince of Johor he had been convicted of homicide in a shooting incident in 1977 but had been pardoned by his father and became sultan in 1981. In 1989 the sultan of Perak, Azlan Muhibuddin Shah, became the *yang di-pertuan agong*. He was succeeded in 1994 by Tuanku Ja'afar ibni Al-Marhum Tuanku Abdul Rahman, who was in turn succeeded in 1999 by Salehuddin Abdul Aziz Shah ibni Al-Marhum Hismuddin Alam Shah. Salehuddin died in office on 21 November 2001 and was succeeded by Tuanku Syed Sirajuddin ibni Almarhum Tuanku Syed Putra Jamalullail, the sultan of Perlis.

Executive power rests with the cabinet, chosen by the prime minister, who is the leader of the majority party or coalition of the house of representatives (Dewan Rakyat), the lower house of parliament. The 193 members of the house of representatives must be at least 21 years old; they are elected by universal adult suffrage (at age 21). Their term is five years unless the house is dissolved earlier. The 69-member senate (Dewan Negara) consists of 26 elected members (two from each state); 2 members appointed by the paramount ruler to represent the federal territory of Kuala Lumpur and 1 to represent the island of Labaun; and 40 members appointed by the paramount ruler on the basis of distinguished public service or their eligibility to represent the ethnic minorities. Senators must be at least 30 years old; they hold office for six-year terms.

### 14 POLITICAL PARTIES

Before World War II, there was limited political activity in Malaya, but the Japanese occupation and its aftermath brought a new political awareness. Postwar political parties sought independence, and although the Malays feared domination by the populous minorities, particularly the economically stronger Chinese. The United Malays National Organization (UMNO), the leading Malay party, and the Malaysian Chinese Association (MCA) formed the Alliance Party in 1952. This party was later joined by the Malaysian Indian Congress (MIC) and became the nation's dominant political party. The Malayan Communist Party, a powerful and well-organized group after the war, penetrated and dominated the trade unions. In 1948, after the Communists had resorted to arms, they were outlawed.

In the elections of April 1964, the Alliance Party won a majority of 89 of the 154 House seats. The third general election since independence was held in Peninsular Malaysia on 10 May 1969; in the balloting, the Alliance Party suffered a setback, winning only 66 seats. The election was followed by communal rioting, mainly between Malays and Chinese, resulting in much loss of life and damage to property. The government suspended parliament and declared a state of emergency; elections in Sarawak and Sabah were postponed until July 1970. By the time parliament was reconvened on 22 February 1971, the Alliance had achieved a two-thirds majority (required for the passage of constitutional amendments) with the addition of 10 unopposed seats from Sabah and through a coalition with the Sarawak United People's Party, which controlled 12 seats.

The elections for state assemblies also resulted in a setback for the Alliance Party, which before the elections had controlled 10 of the 13 state assemblies, but after the elections only 7. In September 1970, Tunku Abdul Rahman retired as prime minister and was replaced by the deputy prime minister, Tun Abdul Razak. In 1973, the Alliance Party formed a broader coalition consisting of the UMNO, MCA, MIC, and eight minority parties. Known as the National Front and led by the UMNO, the ruling coalition was returned to power in the 1974, 1978, 1982, and 1986 elections with overwhelming majorities (148 of 177 seats in 1986). The principal opposition parties, which win few seats owing to a legislative apportionment scheme that heavily favors Malay voters, are the Chinese-based Democratic Action Party (DAP), founded in 1966, and the Pan-Malayan Islamic Party, dedicated to establishing an Islamic state.

In July 1981, Datuk Seri Mahathir bin Mohamad replaced Datuk Hussein bin Onn as prime minister. As of 1986, the National Front also had majorities in 11 of 13 state legislatures; the state assembly of Sabah, the lone exception, was under the control of the Sabah People's Union (Berjaya). In the 1986 elections, Chinese voters moved away from the MCA and toward the DAP. In April 1987, Mahathir narrowly overcame a challenge to his leadership of the UMNO.

As of 2003 there were more than 20 registered parties. The governing coalition is the Barisan Nasional (National Front), led by the United Malays National Organization (UMNO) and comprising 13 other parties, most ethnically based. Major opposition groups are the Muslim Unity Movement (APU), dominated by the Parti Se-Islam Malaysia (PAS), the Democratic Action Party (DAP), which is predominantly Chinese and socialist, the Parti Bersatu Sabah (PBS), and the newly formed National Justice Party formed by Wan Aziziah Wan Ismail, the wife of jailed government official Anwar Ibrahim.

In the election held 28 and 29 November 1999, the 193 seats of the lower house were distributed as follows: National Front (148 seats), DAP (10), PBS (3), and PAS (27), and Parti Keadilan Nasional (5). In the election, PAS won control of the state governments of Kelantan and Terengganu, giving it two of Malaysia's 13 states. The next elections must be held by 20

December 2004, but because Mahathir has announced he will resign by October 2003, an election is expected to be called before he leaves office in the hope of capitalizing on voters' goodwill towards the UMNO.

## 15 LOCAL GOVERNMENT

Of the 11 Peninsular Malaysian states, nine are headed by sultans, who act as titular rulers and as leaders of the Islamic faith in their respective states. The other two Peninsular states, Pinang and Melaka, are headed by federally appointed governors. State governments are parliamentary in form and share legislative powers with the federal parliament. Effective executive authority in each state is vested in a chief minister, selected by the majority party in the state legislature. The legislative assembly, composed of elected members, legislates in conformity with Malaysian and state constitutions, subject to the sultan's assent. In Peninsular Malaysia the states are divided into districts, each of which consists of 5 to 10 subdistricts, called *mukims* (*derah* in Kelantan). Each mukim is responsible for varying numbers of *kampongs* (villages or compounds). The mukim may include villages or consist of large, sparsely populated tracts of land. Each one is headed by a *penghulu* (*penggawa* in Kelantan), a part-time official locally elected for five years, who serves as the principal liaison between the district and the village. The village elects a chief (*ketua*).

Upon incorporation into the Federation of Malaysia in 1963, both Sabah and Sarawak adopted separate constitutions for their local self-government; each is headed by a chief minister, appointed by the majority party of the elective legislature. In Sarawak, divisions and districts are the main subdivisions; in Sabah their counterparts are residencies and districts. The district officer is the most important link between the governing and the governed. His responsibilities are administrative, fiscal and judicial. Kuala Lumpur, the national capital and former capital of Selangor State, was constituted as a separate federal territory, under the national government, on 1 February 1974. The mayor is appointed by the paramount ruler on the advice of the prime minister.

## 16 JUDICIAL SYSTEM

Malaysia has a unified judicial system, and all courts take cognizance of both federal and state laws. The legal system is founded on British common law. Most cases come before magistrates and sessions courts. Religious courts decide questions of Islamic law and custom. The Federal Court, the highest court in Malaysia, reviews decisions referred from the High Court of Peninsular Malaysia, the High Court of Sabah and Sarawak, and subordinate courts. The Federal Court, of which the *yang di-pertuan agong* is lord president, has original jurisdiction in disputes among states or between a state and the federal government. The Federal Court consists of the chief justice, the two chief judges from the High Courts, and seven other judges. Administrative detention is permitted in security cases, in which certain other guarantees of due process are reportedly suspended.

The judiciary has traditionally functioned with a high degree of independence. Most civil and criminal cases are fair and open. The accused must be brought before a judge within 24 hours of arrest. Defendants have the right to counsel and to bail. Strict rules of evidence apply in court and appeal is available to higher courts. Criminal defendants may also appeal for clemency to the paramount ruler or to the local state ruler. Severe penalties, including the death penalty, are imposed for drug-related offenses.

High courts have jurisdiction over all serious criminal cases and most civil cases. The sessions courts hear the cases involving landlord-tenant disputes and car accidents. Magistrates' courts hear criminal cases in which the maximum sentence does not

exceed 12 months. The Court of Appeals has jurisdiction over high court and sessions court decisions.

## 17 ARMED FORCES

In 2002 Malaysia had active armed forces numbering 100,000 with reservists of 41,600. The total strength of the army was 80,000, including infantry and armored battalions, artillery regiments, and supporting air defense, signal, engineer, special forces, and administrative units. Equipment included 26 *Scorpion* tanks. The navy had 12,000 personnel, 4 frigates, 8 missile craft, and 27 patrol craft. The air force had 8,000 personnel and 95 combat aircraft. Paramilitary forces numbered 20,100, and the People's Volunteer Corps had 240,000. Malaysia provides support to six peacekeeping missions. Australia provides a small training mission. Expenditures on defense were estimated at \$1.7 billion in 2000 or 2.1% of the GDP.

## 18 INTERNATIONAL COOPERATION

Malaysia is a member of the UN, having joined on 17 September 1957, and participates in ESCAP and all the nonregional specialized agencies. It also belongs to the Asian Development Bank, ASEAN, the Commonwealth of Nations, and G-77. Malaysia is a signatory of the Law of the Sea and a member of the WTO.

Before the 1970s, Malaysia pursued a pro-Western policy, but it later promoted the neutralization of Southeast Asia while establishing ties with China, the Democratic People's Republic of Korea, and Cuba and strengthening relations with the former USSR and other East European states. Links with its traditional allies, including the United States, remained strong in the course of this transition. Relations with the United Kingdom were strained in the early 1980s, after the British imposed surcharges on foreign students attending universities in the United Kingdom and issued new regulations reducing opportunities for foreign takeovers of British-owned companies. Malaysia agreed to drop its "buy British last" campaign in 1983 after the United Kingdom expanded scholarship opportunities for Malaysian students. In 1986 there was some friction with Singapore because of its improved relations with Israel. Malaysia shares the anti-Zionist ideology of the Arab League countries.

Malaysia in the new millennium has been building better relations with its neighbors. Malaysia has cooperated with the ASEAN Regional Forum (ARF), a 23-member Asian security network, helping to reduce tensions over the disputed Spratley Islands in the South China Sea. Malaysia also seeks increased economic integration in Southeast Asia. In 1990, Prime Minister Mahathir proposed the creation of an East Asian Economic Caucus, an idea that was initially regarded with skepticism, but was subsequently taken up by the ASEAN+3 group (the ten ASEAN members plus China, Japan, and South Korea), as a way of strengthening financial and trade ties between those states.

## 19 ECONOMY

Malaysia was one of the most prosperous nations in Southeast Asia before 1998, albeit with the mood swings inherent in an export-oriented economy. Until the 1970s, Malaysia's economy was based chiefly on its plantation and mining activities, with rubber and tin the principal exports. Since then, however, Malaysia has added palm oil, tropical hardwoods, petroleum, natural gas, and manufactured items, especially electronics and semiconductors, to its export list. This diversification greatly reduced the nation's dependence on overseas commodity markets. By 1980, rubber accounted for about 7.5% of the value of all exports, down from 30% in the 1970s, and tin for about 4.3%, down from about 20% in the 1970s. The worldwide recession in 1981-82 hurt the Malaysian economy. Prices of Malaysia's traditional commodity exports were depressed, growth slowed, and investment fell. Government efforts to stimulate the economy

through spending on heavy industry and infrastructure projects financed by borrowing pushed foreign debt from \$4 billion in 1980 to \$15 billion in 1984.

In 1985, the GDP in current prices was estimated at \$31 billion, up from \$25 billion in 1981. Real growth rates rose to 6.9% in 1981, and 7.6% in 1984, but declined 1.0% in 1985. In 1985–86 Malaysia's period of high growth was halted abruptly as both oil and palm oil prices were halved. Recovery began in late 1986 and 1987, spurred by foreign demand for exports. Growth rates reached an average 8–9% from 1987–92, and for most of the 1990s, the economy annually by just under 9%.

The Asian financial crisis put an end to 13 years of uninterrupted growth with a decline in GDP of -7.4% in 1998. The government's response was to embark on a massive economic recovery program, aimed at stabilizing the currency, restoring market confidence, maintaining market stability, strengthening economic fundamentals, furthering socioeconomic goals, and reviving badly affected sectors. The program featured two fiscal stimulus packages amounting to 2.25% of GDP and the establishment of three special purpose agencies: the Danaharta—also known as the National Asset Management Co.—to acquire and dispose of non-performing loans (NPLs); the Danamodal, charged with implementing government policy on recapitalizing financial institutions, and the Corporate Debt Restructuring Committee (CDRC), to facilitate voluntary debt restructuring between creditors and viable corporate debtors. More controversially, the government has proceeded, in 2000, with previous directed merger plans to consolidate Malaysia's banks into 10 “anchor” banks, and to consolidate Malaysia domestic brokerage houses into 15 “universal brokers,” the rationale being that larger entities would be better able to compete with international counterparts. Gross domestic product growth recovered to 6.3% in 1999 and increased to 7.9% in 2000, but was reduced to .7% in 2001 as the global economic slowdown and the aftermath of the 11 September 2001 terrorist attacks on the United States helped produce a 10.6% reduction in exports.

In 2002, the economy continued to recover, reaching an annual growth rate of about 3.5%. Since late 2001, Malaysia has taken a leading role, with Bahrain, in seeking to institutionalize Islamic banking. In November 2001 Malaysia signed an agreement along with Bahrain, Indonesia, Sudan and the Saudi-based Islamic Development Bank (IDB) to establish the International Islamic Financial Market (IIFM). This is an extension of its domestic efforts to foster Islamic banking going back to the Islamic Banking Act of 1983, under which it was the first Islamic economy to issue bonds on an Islamic basis. In June 2002 Malaysia took the lead in offering the world's first Islamic global bond issue. The Islamic bond is a problem because Islam forbids paying or receiving interest. The 144a offering (not subject to SEC disclosure regulations) in the name of an SPV (special purpose vehicle), the Malaysia Global Sukuk (MGS), involves MGS buying from the Malaysian government the Ministry of Finance building, two hospitals and a civil service accommodation, and leasing them back to the government for a period of five years, during which time the government issues trust certificates to the investors with payments payable exactly equal to lease rental payments being made by the government to MGS. At the end of five years, in 2007, the government will buy back the properties at the face value of the bond. These arrangements were judged compliant with Islamic law. The Trust Certificates had their primary listing on the Luxembourg Stock Exchange in August 2002, and their secondary listing on Malaysia's Labuan International Financial Exchange (LFX) in September 2002. The LFX is part of Malaysia's Labuan International Offshore Financial Centre (IOFC), established in October 1990 by the government to provide a full array of financial services for multinational corporations and investors.

The MSG Certificates are part of a recent effort to provide Sharia-compliant instruments for a growing Islamic financial market, estimated in 2002 at \$200 billion. The Labuan Offshore Financial Services Authority (OFSA) takes credit for initiating the idea for the establishment of the IIFM in November 2001. A Malaysian heads the IIFM, and the Islamic Financial Service Organization (IFSO) is headquartered in Malaysia. As host country for the IFSO, Malaysia will lead in formulating and developing standards for the regulation of Islamic financial institutions.

In 1990, Malaysia was the world's largest producer of natural rubber accounting for one-quarter of world production. By 1993, however, production was overtaken by both Thailand and Indonesia. During the late 1990s, production of synthetic rubbers undercut the natural rubber industry. In 1990 Malaysia was the world's largest exporter of tropical hardwood, the world's fourth-largest producer of cocoa, and the source of 60% of the world's palm oil (1990). By 2001, Malaysia exported over half of the world's fixed vegetable oils, accounting for approximately 6.7% of Malaysia's exports. The manufacturing sector made up about 90% of exports in 2002, up from about 69% of exports for 2002, with electronics accounting for two-thirds of total exports. Malaysia remains a major producer of commodities including rubber, tin, palm oil, tropical hardwoods, cocoa and pepper. It also produces and exports oil, petroleum products and liquefied natural gas, amounting to 5% of total exports in 1998.

Government or government-owned entities dominate a number of sectors (plantations, telecommunications, and banking). Since 1986 the government has moved toward corporatization and the eventual privatization of telecommunications, ports, highways, and electricity production and distribution. In the 1990s, the government embarked on a privatization program aimed at creating a Malaysian business elite as part of the its bumiputera (literally, “sons of the soil”) policy. However, virtually all the major privatized companies failed in the Asian financial crisis, 1997–98, including the carmaker Proton, Malaysian Airlines, the engineering group Renong and the media group, Malaysian Resources, and were renationalized in the aftermath, and in 2002, the business remains dominated by non-Malays. The official unemployment rate at 2.6% in 1996, had risen to 3.6% in 2001. The inflation rate as measured by consumer prices, at 5.1% for 1998, fell sharply in the succeeding years to 1.6% in 2000, 1.4% in 2001, and 1.8% in 2002. Sarawak's basic economy is subsistence agriculture, supplemented by petroleum production and refining, the collection of forest produce, fishing, and the cultivation of cash crops, primarily rubber, timber and pepper. Sabah's economy rests primarily on logging and petroleum production.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Malaysia's gross domestic product (GDP) was estimated at \$200 billion. The per capita GDP was estimated at \$9,000. The annual growth rate of GDP was estimated at 0.3%. The average inflation rate in 2001 was 1.5%. 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 12% of GDP, industry 40%, and services 48%. Foreign aid receipts amounted to about \$1 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,129. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. The richest 10% of the population accounted for approximately 38.4% of household consumption and the poorest 10% approximately 1.7%. It was

estimated that in 1998 about 8% of the population had incomes below the poverty line.

## 21 LABOR

In 2001, Malaysia's total labor force was estimated at 9.9 million. Of these, approximately 28% were in trade and tourism, 27% in manufacturing, 16% in agriculture; 10% in services; 10% in government; and 9% in construction. Unemployment in 2001 was estimated at 3.7%.

Workers have the right to engage in union activity, but only about 8% of the workforce was unionized in 2002. There are 544 trade unions and two national trade confederations. Negotiations between unions and employers are voluntary; strikes are permitted but limited due to many restrictions. If the dispute has been referred to an industrial court for settlement, the employees are prohibited from engaging in a strike.

Employment by children under the age of 14 is prohibited by law. However, child labor persists in some areas of the country. Protective labor legislation in Malaysia is more extensive than in most Asian countries. Commerce and industry operate on a 48-hour week, although actual weekly hours tend to be closer to 44 hours. There is a legal requirement of one rest day per week. There is no national minimum wage, but a minimum wage does exist on a sector or region basis. In 2002, the government was considering a minimum wage of \$237 per month. Occupational safety and health provisions are set by law but are erratically enforced. The provisions are more rigorously enforced in the formal economic sector and are least enforced on plantations and construction sites where immigrant workers are employed. These foreign workers have no legal protections and are prohibited from forming unions.

## 22 AGRICULTURE

Agriculture is no longer the most important sector of the Malaysian economy, contributing 12% of GDP in 2001 (down from 38% in 1960) and occupying about 16% of the employed work force in that year. Nevertheless, agriculture still accounted for 6.3% of export earnings in 1997. Diversification—including development of such newer crops as oil palm, cocoa, and pineapples—is promoted by the government. Much of Sabah and Sarawak is covered with dense jungle and is not conducive to farming. Peninsular Malaysia, however, is predominantly an agricultural region. Cultivation is carried out on the coastal plains, river valleys, and foothills.

Domestic rice furnishes Peninsular Malaysia with about 80% of its requirements; most of the rice supply for Sabah and Sarawak, however, must be imported. Milled rice production for 1999 totaled 1,934,000 tons, of which about 70% came from Peninsular Malaysia. Rubber production totaled 886,000 tons in 1999. The government, through the Rubber Research Institute of Malaysia, has concentrated on improving production, but many estates have switched to production of the more profitable oil palm. Although Malaysia produced 14% of the world's rubber in 1999, and typically accounts for over one-third of the world's rubber exports, rubber is no longer the country's primary source of export income. Competition from Thailand and Indonesia has recently diminished the Malaysian market share for rubber.

Production of palm oil and palm kernel oil totaled 10,553,000 and 3,026,000 tons respectively in 1999, more than any other country in the world. More than 90% of all rubber and palm oil is produced in Peninsular Malaysia. Black and white peppers are grown on Sarawak; pepper exports amounted to \$49.3 million in 2001. Output of lesser agricultural products in 1999 included copra, 13,000 tons; coconuts, 711,000 tons; cocoa, 100,000 tons; and pineapple, 143,000 tons.

## 23 ANIMAL HUSBANDRY

Peninsular Malaysia is free of most of the infectious and contagious diseases that plague livestock in the tropical zone, but the livestock industry is of minor importance. The livestock population in 2001 included 1,972,000 hogs, 742,000 head of cattle, 247,000 goats, 129,000 sheep, and 148,000 buffalo. The swamp buffalo and indigenous breeds of cattle are used mainly as draft animals. Production of meat in 2001 included (in tons): poultry, 780,000; pork, 168,000; and beef (cattle). Malaysia is self-sufficient in pork and poultry production and also exports to other countries in the region, particularly Singapore and Japan. Sarawak's poultry sector is growing by 7% annually in response to increased demand from neighboring Kalimantan, Indonesia, where during certain festive months there is a poultry shortage. Hog raising and export are handled mainly by non-Muslim Chinese. The government prohibits the importation of chicken and chicken parts in order to protect domestic producers. Milk production was 32,000 tons in 2001.

## 24 FISHING

Fishing is being developed both as a means of reducing unemployment and as a primary source of protein in the country's diet. The total catch in 2000 was 1,289,245 tons, as compared with 296,300 tons in 1966; the increase has been largely the result of expanded and improved marketing facilities. Exports of fisheries products were valued at \$349 million in 2000, with imports of \$296.8 million that year. A government training program in navigation and engine care is also accelerating the use of powered boats. Freshwater fishing, which accounts for 2% of the total catch, occurs in paddy fields or irrigation ditches and is integrated with rice farming and hog production.

## 25 FORESTRY

Malaysia produced an estimated 26.4 million cu m (932 million cu ft) of roundwood from a forest area of 19.3 million ha (47.7 million acres) in 2000. About 32% of the forest area is located in Peninsular Malaysia, 22% in Sabah, and 46% in Sarawak.

After 40 years of large scale conversion of lowland forest areas into agricultural plantations, the pace of new land development declined in the mid-1990s. Reduced land availability and a growing need to preserve remaining forests have resulted in a 60% reduction from the government's 1991-95 plan in the total acreage of land scheduled for development. Of the total natural forest area, 15.7 million ha (38.8 million acres) of forested land is designated as Permanent Forest Estate, of which 70% is available for sustainable production.

Exports of timber products in 2000 amounted to \$3.8 billion, or 4.2% of total exports. Exports of tropical hardwoods in 2000 included (in thousands of cubic meters): logs, 6,802; lumber, 2,901; veneer, 902; and plywood, 3,355. Malaysia is the world's third leading producer (after Brazil and Slovakia) of veneer sheets, accounting for 7% of global production in 2000. In keeping with the National Forestry Policy of 1978, exports of sawlogs are being progressively reduced in favor of domestic development of veneer, plywood, furniture, and other wood-using industries. Many states ban the export of logs. Only Sarawak exports tropical hardwood logs, but its state government has also placed further restrictions on exporting logs in order to encourage expansion of value-added activities.

## 26 MINING

Petroleum and liquefied natural gas (mainly from Sabah and Sarawak) was Malaysia's second top export commodity in 2002, and tin mining and smelting were a top industry in Peninsular Malaysia. Production and employment in the tin sector have declined significantly in recent decades, as most of Malaysia's

extensive resources (ranked second in the world) were depleted or were beneath developed lands. In 2001, Malaysia mined and processed some 4,973 tons of tin metal and concentrates—falling below the 5,000-ton level for the first time in the country's mining history—down from 6,307 in 2000, 7,340 in 1999, and 36,900 in 1985; production decreased because of depleted high-grade reserves and lower tin prices in the Kuala Lumpur Tin Market. The number of working mines also declined, from 1,000 in 1974 to 37–46 in 2001. To revitalize the tin-mining industry, the Malaysian Chamber of Mines recommended that the government of Perak, one of the two main tin-mining states (Selangor being the other), change the royalty rate to a flat rate. Malaysia was the second-largest producer of refined tin in 1997.

Malaysia also had substantial resources of such tin-associated minerals as ilmenite, monazite, struverite (a columbium [niobium]/tantalum-bearing mineral), and zircon. Malaysia ranked 10th in the world in rare earths reserves, and struverite output increased tenfold in 2001 because of world demand for the production of tantalum metal products; all struverite was exported to China. Malaysia also had important mineral resources of barite, bauxite, carbonate rocks, clays, coal, copper, gold, iron ore, and silica.

Subsoil resources were public property of the states, which granted prospecting licenses and mining leases. Royalties on coal and gold accrued to the states, and export duties were levied on other minerals by the government, which returned a portion to the states. GDP grew by 0.4% in 2001, compared with 8.3% in 2000. The mining and quarrying sector grew by 0.2% in 2001, compared with 3.1% in 2000, and mining and quarrying contributed 6.9% to GDP in 2001. Mineral exports totaled \$8.5 billion in 2001, or 9.7% of total exports; of those, nonfuel minerals accounted for \$566 million. The major export-earning nonfuel minerals in 1997 were: refined tin (\$176 million); copper concentrates (\$45 million); and other minerals, including ilmenite, kaolin, bauxite, clays, iron ore, monazite, silica, zircon concentrate, and mica (\$28 million). The Malaysian Nature Society submitted a proposal to the Perak State government in 2000 to convert a tract of old tin mining land in Batu Gajah into a recreation and conservation site, to be called Kinta Park, which would also promote the area's tin-mining heritage. In 2001, the Penang Island Municipal Council announced that tantalum-bearing minerals were discovered underneath Malaysia's oldest stadium, in Georgetown, and called for interested parties to prospect and mine out the minerals before renovation work could be started on the stadium. Iron ore production increased markedly after World War II, under the stimulus of Japanese demand, but production subsequently dwindled from a peak of 3.9 million tons (iron ore and concentrate) in 1965 to a low of 181,600 in 1985 and 376,000 in 2001. The output of bauxite, all of which was exported, decreased from 703,561 tons (gross weight) in 1975 to 279,000 in 1997, 223,000 in 1999, 123,000 in 2000, and 64,000 in 2001; annual capacity, at the Teluk Rumania and Sg. Rengit mines, in Johor, was 400,000 tons. Malaysia ceased copper production, all of it at the Mamut Mine, in 1999; there were large reserves on Sabah, and output was 131,832 tons in 1985, before dropping to 13,907 in 1998 and 4,600 in 1999. As a result, silver production, most of which was a byproduct of copper mining, dropped from 9,647 kg in 1997 to 4 and 3 kg in 2000 and 2001, respectively. Other metal minerals extracted included gold, columbite, monazite, kaolin, ilmenite, zircon concentrate, and titanium dioxide (from Terangganu). Malaysia was a net exporter of all its coal, copper concentrate, ilmenite, rare earths, and zircon concentrate, and most of its smelted tin. Industrial minerals produced in 2001 included barite, hydraulic cement, clays and earth metals (80 million tons, up from 33 million tons in 1999), dolomite, feldspar, fertilizers, kaolin, limestone, mica, nitrogen, salt, sand and gravel, silica sand, and stone. Silica sand came mainly from natural sand

deposits in Sarawak (56.6 million tons of estimated reserves) and Johor and from tin mine tailings sand in Perak and Selangor; 85% was exported and 63% of exports went to Singapore.

## 27 ENERGY AND POWER

Malaysia's net installed electrical generating capacity in 1998 stood at 13,541 MW. Electrical energy production increased from 1,622 million kWh in 1963 to 4,971 million kWh in 1974 and 57,435 million kWh in 1998. In 1996, 16% of electrical production was hydrogenerated, and over 83% was of thermal origin. The National Electricity Board, a state-owned corporation, supplies the greater part of the nation's power.

Crude oil, developed in the 1970s, is now the chief mineral produced, with reserves estimated at 3 billion barrels in early 2002. In 2001, output averaged 659,205 barrels per day. Malaysia's oil is produced offshore, primarily in the peninsular region. Of new and increasing importance are large offshore natural gas deposits, with reserves estimated at more than 2.1 trillion cu m (74 trillion cu ft). Production in 2000 totaled 42.5 billion cu m (1.5 trillion cu ft). The principal gas fields are the Trengganu, off the east coast of Peninsular Malaysia, and the Central Luconia, Bintulu, and Labuan fields, located off the coasts of Sabah and Sarawak. In 2000, liquefied natural gas (LNG) exports totaled 20 billion cu m. Production of oil and natural gas is controlled by the National Petroleum Co. (PETRONAS).

Since reserves of oil are limited and local coal is of an inferior grade, the government has greatly expanded efforts to harness the country's hydroelectric potential and natural gas as alternative energy sources. In 1994, the government approved the construction of the 2,400 MW Bakun hydroelectric project in Sarawak. However, after a 1996 high court ruling halting the project on environmental grounds, it was suspended indefinitely in 1997 because its unexpectedly high costs made it unfeasible in light of the country's unfavorable economic climate.

## 28 INDUSTRY

Early industrialization efforts centered on the establishment of import-substitution industries (ISI) and resulted in construction of sugar refineries and motor vehicle assembly plants. Industrialization accelerated after the mid-1960s under the provisions of the Investment Incentives Act and the formation of the Malaysian Industrial Development Authority (MIDA). Special incentives were offered for industries that were labor intensive or export oriented or that utilized domestic rubber, wood, and other raw materials. In the mid-1980s the Malaysian economy changed from a commodity-based to a manufacturing-based economy. In 1986, the leading manufacturing industries included rubber processing, the manufacture of tires and other rubber products, palm oil processing, tin smelting, and the manufacture of chemicals, plywood, furniture, and steel. Other industries were textiles, food processing, and the manufacture of electronic and electrical components. Industrial products in 1985 included 3,128,000 tons of cement, 13,839 tons of cigarettes, 70,147 passenger cars, 568,387 television sets, 3,600,000 tires, and 180,746 m of cotton fabric. Most early industries were controlled by ethnic Chinese and foreigners, but current policies call for greater participation by ethnic Malays.

In 2001 the manufacturing sector accounted for 40% of GDP, up from 33% in 1996, and for almost 90% of exports. Of total exports in October 2002, electronics and electrical products accounted for 52%; chemicals and chemical products, 5%; liquefied natural gas (LNG) 3.65%; wood products, 3%; machinery, 2.9%; optical and scientific equipment, 2.6%; textiles and clothing, 2.4%; and refined petroleum, 2.3%. In 2001, Malaysia produced about 15% of the world's DVD players, behind China's 54.1% and Japan's 7.7%. In peninsular Malaysia, the leading industries by value of annual output are rubber and

oil palm processing and manufacturing, light manufacturing industries, electronics, tin mining and smelting, and logging and processing timber. In Sabah, the leading industries are logging and petroleum production, while in Sarawak, they are agricultural processing, petroleum production and refining, and logging.

Malaysia has six oil refineries, with a total capacity of 514,500 barrels per day. Oil production 1996 to 2002 varied between 650,000 bpd and 730,000 bpd, with the 2001 daily average at 659,205 barrels. Proven reserves have dropped from 4.3 billion in 1996 to 3 billion in 2002, and Malaysia's national oil and gas company, PETRONAS, has invested in oil exploration projects in Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Burma, Algeria, Libya, Tunisia, the Sudan and Angola. Overseas operations made up one-third of PETRONAS' operations in 2002. Japan, Thailand, South Korea and Singapore continue to be the major customers for Malaysian crude oil. Malaysia's domestic oil fields are split between the South China Sea off Borneo and those off Peninsular Malaysia. All exploration is conducted under production-sharing contracts (PSCs) between PETRONAS, the national oil company, and foreign companies. In 1999, foreign oil companies involved in the production of oil and gas in Malaysia included Exxon, Shell, Sonoco, Statoil, Union Carbide, Amerada, and Lundin. Gas reserves are being developed to fuel power stations and to supply industries in Peninsular Malaysia and Singapore. In 2000, Malaysia accounted for 15% of the world's exports of LNG, down from 18% in 1998.

A top industrial priority in Malaysia economic plans is the development of the "multimedia super corridor" (MSC), an ambitious project underway to transform a 15-by-40 km (9.3-by-25 mi) area south of Kuala Lumpur into Asia's version of California's Silicon Valley. It is composed of a number of projects: the tallest building in the world, the 450-m (1,483-ft) Petronas Twin Towers; two of the world's first Smart Cities—Putrajaya, the \$8 billion new seat of government and administrative capital of Malaysia, where the concept of electronic government will be implemented, and Cyberjaya, an intelligent city with multimedia industries, research and development centers, a multimedia university and operational headquarters for MNCs; the construction of a \$3.6 billion international airport; and the installation of a fiber-optic telecommunications system linking them all.

In 1998, as part of its policy to encourage manufacturing industries, the government relaxed restrictions on foreign ownership of new manufacturing projects. Any new manufacturing project for which the Malaysian Industrial Authority (MIDA) approves a license may have up to 100% foreign ownership regardless of its involvement in exporting. This liberalized policy, originally scheduled to expire at the end of 2001 has been extended to the end of 2003.

## 29 SCIENCE AND TECHNOLOGY

Training in science, technology, and related subjects was promoted at all levels during the 1970s and 1980s. Enrollment at technical and vocational secondary schools rose from 4,510 in 1970 to 20,720 in 1985. The National University of Malaysia at Selangor, the University of Malaya at Kuala Lumpur, the University of Agriculture at Selangor Darul Ehsan, the University of Science at Penang, the Technological University at Johor Bahru, Kolej, Damansaura Utama College at Selangor, Politeknik Kuching at Surawak, and Tunku Abdul Rahman College at Kuala Lumpur offer degrees in basic and applied sciences. In 1987-97, science and engineering students accounted for 54% of college and university enrollments. National science policy is administered by the Ministry of Science, Technology, and Environment. The Ministry of Agriculture undertakes all aspects

of research for improvement of crops. The Institute of Medical Research is a branch of the Ministry of Health.

At Kuala Lumpur are located the Forest Research Institute Malaysia (FIRM), the Freshwater Fish Research Center, the Malaysian Agricultural Research and Development Institute (MARDI), the Malaysian Institute of Microelectronic Systems (MIMOS), and the Rubber Research Institute of Malaysia.

In 1987-97, total expenditures on research and development amounted to 0.24% of GNP. During the same period, 93 scientists and engineers per million population were engaged in research and development. In 1998, high-tech exports were valued at \$31.4 billion and accounted for 54% of manufactured exports.

## 30 DOMESTIC TRADE

Imported goods are channeled into the Malaysian market through local branches of large European mercantile firms; by local importers with buying agents abroad; through branch offices and representatives of foreign manufacturers; by local Chinese, Indian, and Arab merchants who import directly; and by commission agents. Chinese merchants occupy an important place in the marketing structure and control a large share of the direct import trade. For warehousing of imported goods, the facilities of the port of Singapore are used, while rubber for export is warehoused mainly on plantations.

The usual business hours are from 8:00 AM to 4:15 PM, Monday-Friday including an hour long lunch break, with generally a half-day on Saturday. In Kelantan, Terengganu, Johor, Perlis, and Kedah states, Thursday is a half-day and (in keeping with Islamic practice) Friday is the day of rest. English is widely used in commerce and industry.

Newspaper and motion picture advertising is directed toward the higher-income consumer, while radio advertising, outdoor displays, and screen slides are used for the lower-income consumer, who is less likely to be literate. A code of practice and ethics governing advertising is in force, with restrictions on advertising of some products, such as alcohol and tobacco. Trade fairs are supervised by the Ministry of Trade and Industry.

## 31 FOREIGN TRADE

During the 1970s, petroleum and manufactures displaced rubber and tin as Malaysia's leading exports. Malaysia now exports over a third (37%) of the world's fixed vegetable oil, and a considerable portion (14%) of the world's radio broadcast receivers, but its largest export revenues come from sales of office machines. The top eight exports are:

	% OF COUNTRY TOTAL
Office machines and parts	21
Transistors and valves	19
Telecommunications equipment	13
Crude petroleum	4.0
Natural and manufactured gas	3.7
Fixed vegetable oil	2.7
Electrical breakers	2.6
Apparel	2.3

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

Consumer goods	4.4%
Food	3.6%
Fuels	4.8%
Industrial supplies	21.3%
Machinery	60.2%
Transportation	4.1%
Other	1.6%

Exports went primarily to the US (21%), Singapore (18%), and Japan (13%). Imports came primarily from Japan (21%), the

US (17%), and Singapore (14%). Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	20,160	13,637	6,523
Singapore	18,046	11,762	6,284
Japan	12,834	17,240	-4,406
China (inc. Hong Kong)	7,464	5,494	1,970
Netherlands	4,110	578	3,532
Thailand	3,549	3,154	395
Korea	3,280	3,663	-383
United Kingdom	3,044	1,600	1,444
Germany	2,457	2,442	15
Indonesia	1,706	2,269	-563

### 32 BALANCE OF PAYMENTS

Malaysia sustained a favorable trade balance throughout the 1960s and 1970s, recording its first trade deficits in 1981 and 1982, as world prices for tin, crude oil, rubber, and palm oil, the major exports, weakened simultaneously. Malaysia's balance of payments, like that of many other producers of primary products, was adversely affected in 1981–82 by the prolonged recession in the world's industrial nations. From 1983 to 1986, however, Malaysia registered trade surpluses. In the 1990s, a significant growth in exports and a decrease in imports led to trade surpluses, along with a fairly large services deficit. In the early 2000s, however, exports declined, but so did imports of intermediate components used in the manufacture of the country's electronics exports; this contributed to continuing strong trade surpluses.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Malaysia's exports was \$94.4 billion while imports totaled \$769 million resulting in a trade surplus of \$93.631 billion.

The International Monetary Fund (IMF) reports that in 2000 Malaysia had exports of goods totaling \$98.4 billion and imports totaling \$77.6 billion. The services credit totaled \$13.8 billion and debit \$16.7 billion. The following table summarizes Malaysia's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>8,409</b>
Balance on goods	20,854
Balance on services	-2,951
Balance on income	-7,514
Current transfers	-1,979
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-6,276</b>
Direct investment abroad	-2,026
Direct investment in Malaysia	3,788
Portfolio investment assets	...
Portfolio investment liabilities	-2,472
Other investment assets	-5,565
Other investment liabilities	...
<b>Net Errors and Omissions</b>	<b>-3,142</b>
<b>Reserves and Related Items</b>	<b>1,009</b>

### 33 BANKING AND SECURITIES

In 1958, the Bank Negara Tanah Melayu (renamed the Bank Negara Malaysia in 1963) was created as the central banking institution. Bank Negara requires banks to maintain a minimum risk-weighted capital ration (RWCR) of 8%. At the end of 2002, Malaysia had 31 licensed commercial banks, 19 finance companies, 12 merchant banks, two Islamic banks, and 7 discount houses. A total of 36 foreign banks have offices in Malaysia, but their banking privileges are restricted. Specialized credit institutions include the Federal Land Development Authority (FELDA), the Agricultural Bank of Malaysia (Bank Pertanian Malaysia), and Bank Rakyat, serving rural credit

cooperative societies. International trade is financed mainly by the commercial banks. Total banking system assets were \$179.1 billion in 2000. There were 51 offshore banks operating on the island of Labuan in 1997, and a total of more than 1600 companies in operation.

Malaysia offers Islamic banking, which is based on the concept of profit sharing as opposed to the use of interest in the conventional banking system. One such Islamic bank is Bank Islam Malaysia Berhad. The central bank has embarked on a plan to develop Malaysia as a regional Islamic financial center. Toward this end, the central bank formed a consultative committee on Islamic banking in January 1996 to serve as a think-tank group to develop strategies and proposals to map out the future direction of Islamic banking. Although Islamic operations are still only a small proportion of total business, Malaysia has achieved more than most other Islamic countries in this respect, and its developments are regarded as models by them.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$22.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$93.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 2.79%.

The principal market for securities is the Kuala Lumpur Stock Exchange (KLSE), which separated from the joint Stock Exchange of Malaysia and Singapore in 1973. A second, smaller exchange has operated since 1970 to serve indigenous Malay interests. In October 1991 the Kuala Lumpur Stock Exchange completely severed its links with the Singapore Stock Exchange. As of 2001, the KLSE was capitalized at approximately \$120 billion. Foreign investors are permitted to buy and sell on the stock market, subject only to compliance with regulatory requirements. In June 1995, a wide range of measures liberalizing the Malaysian capital market were introduced. These included the lowering of commission rates on the KLSE, the easing of controls on loans secured against shares and less stringent conditions for overseas fund managers. Overseas funds can now set up 100% subsidiaries for conducting non-Malaysian business, and rules on work permits for expatriate staff have been relaxed. By the end of 1997, the Kuala Lumpur Stock Exchange Composite Index (KLCI) capitalization had declined 53% from its high that year of 1271.57. The KLCI hit a low of 262.70 in September 1998, but had climbed back up to 696.1 by the end of 2001, still barely over half its peak value.

### 34 INSURANCE

In Malaysia, third-party automobile liability, workers' compensation, and social security are compulsory insurance. The law requires insurance firms to maintain a minimum of 80% of their assets in authorized Malaysian holdings, including (by an amendment passed in 1978) 24% in government securities. Foreign insurance companies may operate by obtaining a license. The government's insurance branch, the Malaysian National Reinsurance Berhad, covers 25% of all fire and personal accident, 10% of aviation and automobile, and 20% of all other classes of insurance.

### 35 PUBLIC FINANCE

Malaysia's economy, heavily industrial and heavily dependent on export revenues, experienced a bump in the road when the US economy began to slow down at the end of 2000. The United States is a key trading partner for Malaysia, so as exports to the United States fell, so did Malaysia's economy. The government introduced two fiscal stimulus packages in 2001, but neither did the job; at the time, analysts suspected that GDP would grow less than 1% on the year.



The US Central Intelligence Agency (CIA) estimates that in 2001 Malaysia's central government took in revenues of approximately \$20.3 billion and had expenditures of \$27.2 billion including capital expenditures of \$9.4 billion. Overall, the government registered a deficit of approximately \$6.9 billion. External debt totaled \$44.7 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>20,294</b>
Tax revenue	81.9%	16,618
Non-tax revenue	17.9%	3,638
Capital revenue	0.2%	38
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>31,573</b>
General public services	11.0%	2,994
Defense	11.1%	3,031
Public order and safety	5.3%	1,439
Education	22.8%	6,202
Health	6.3%	1,702
Social security	7.2%	1,959
Housing and community amenities	7.3%	1,988
Economic affairs and services	21.6%	5,881
Other expenditures	11.5%	3,118
Interest payments	12.0%	3,258

### 36 TAXATION

Income tax is levied on all individual and corporate income accrued in Malaysia during the previous year. As of 2000, income of resident individuals is taxed at rates ranging from 2% to 29%. Resident and nonresident companies are charged a flat rate of 28%. A 38% income tax is levied on petroleum corporations.

Incentives are available for pioneer industries and for certain capital investments. Capital gains taxes are levied on real estate. Indirect taxes include a general 10% sales tax (5% for more essential items, and 15% for liquor and cigarettes), and a services tax.

### 37 CUSTOMS AND DUTIES

Import tariffs on textiles and other items already produced in Malaysia are applied in order to protect domestic industries. Rates vary from 0% to 300% and imports are also subject to a 10% sales tax and excise taxes. However, the average duty rate is less than 8.1%. In 2000, the government reduced duties on 136 categories of food products from 5–20% to 2–12%. Imported luxury goods have the highest rates. Items imported for industrial development, including machinery and raw materials imported for processing and re-export, are usually duty-free. Exports are generally free of control, except that licenses and export duties apply to exports of petroleum (25%), rubber, tin, palm oil, timber, and pepper.

As a member of the ASEAN free trade area, Malaysia is a part of the Common Effective Preferential Tariff Scheme (CEPT), which aims to liberalize trade in the region. By 2003, all tariffs on manufactured goods will be reduced to 0–5% between member countries, including Singapore, Brunei, Thailand, Philippines, and Indonesia. Vietnam, Laos, Myanmar, and Cambodia are scheduled to join the CEPT by 2008. Malaysia has bilateral trade agreements with 59 countries as well. There are several free zones and a free port at Port Klang.

### 38 FOREIGN INVESTMENT

The government encourages foreign investors with a tax holiday of up to 10 years for investments in new industries and assurance of convertibility and repatriation of capital and profits. In 1975, the Industrial Coordination Act established new equity

participation guidelines that required a substantial majority of Malaysian ownership of new import-substitution industries catering to the domestic market and using local technology; 70% Malaysian ownership was stipulated for export industries. Export industries using imported raw materials could be 100% foreign owned. Some of these restrictions were eased under the fifth Malaysia plan (1986–90). The Promotion of Investment Act of 1986 allowed 100% foreign ownership if a company exported at least 50% of its product and did not compete with local industry, or if it exported at least 80% of its product regardless of competition. In 1998, 100% foreign ownership was granted to projects exporting at least 80% of output, 79% foreign ownership for exports of at least 51% of output, up to 50% foreign ownership for exporting at least 20% of output, and a maximum foreign ownership of 30% for projects exporting less than 20%, regardless of the origin of raw materials. Also, for new manufacturing projects, in a policy originally set to expire at the end of 2000, and now set to expire at the end of 2003, 100% foreign ownership is permitted in any project approved by the Malaysian Industrial Development Authority (MIDA). The MIDA screens all proposals for manufacturing projects to determine if they are compatible with the Second Industrial Master Plan (1996–2005), and government strategic and social policies.

In October 1990 the government established on the Federal Territory of Labuan as an International Offshore Financial Center (IOFC) to provide offshore banking and insurance, trust fund management, offshore investment holding and licensing companies, and other financial services for multinational companies. In the period following the 11 September 2001 terrorist attacks on the United States, Malaysia took the lead in seeking to institutionalize Islamic banking and attract Islamic investment. In November 2001 Malaysia was a founding member, along with Bahrain, Indonesia, Sudan and the Saudi-based Islamic Development Bank (IDB), of the International Islamic Financial Market (IIFM). Effective 1 April 2002, Malaysian banker Abdul Rais Abdul Majid became the IIFM's chief executive officer. In June 2002 the Malaysian government took the lead in putting together the world's first global Islamic bond issue, whose underlying assets were lease payments for five years by the Malaysian government on its Ministry of Finance building, two hospitals and a civil service accommodation. Trust certificates with amounts payable exactly equal to the government's lease payments were listed on the Luxembourg Stock Exchange in August 2002, and, in September 2002, as a second listing on Labuan International Financial Exchange (LFX), part of the Labuan IOFC. The Labuan Offshore Financial Services Authority (OFSA) takes credit for initiating the idea of the establishment of the IIFM, and the Islamic Financial Service Organization (IFSO), which is taking the lead in formulating and developing standards for the regulation of Islamic financial institutions, is headquartered in Malaysia. More conventionally, as of 2002, eleven free-trade zones (FTZs) have been established in Bayan Lepas, Bukit Baru, Mukim Damansara, Mukim Pringgit, Mukim Plentong, Prai, Tanjong Kling, Telok Panglima Garang, Ulu Kinta, and Ulu Klang in the states of Johor, Melaka, Perak, Penang, and Selangor. (FTZs are specially designated geographic areas with regulations, including minimum customs controls and formalities when importing raw materials, parts, machinery, and equipment, specifically designed to serve export-oriented industries.) There are specially designated FTZs for businesses engaged in commercial activities including trading, breaking bulk, grading, repacking, relabeling, and transit. Within an FTZ, goods are allowed to be imported without being subject to customs procedures, provided the goods are ultimately exported after processing. Two FTZs have been established for trading purposes in Bukit Kayu Hitam, Kedah and Pengkalan

Kubor, Kelantan. A third in Mukim of Plentong, Johor, has been established for commercial activities other than trading.

Assets attracting foreign investors to Malaysia are location, cultural ties with Singapore and Taiwan, its economic and political stability, an increasingly competent labor force, and good infrastructure. The main barriers have been restrictions put on foreign investment and ownership as a part of the government's bumiputera policy, which sought particularly to insure Malay dominance of domestic markets. Nevertheless, before the sharp reduction in 2001, Malaysia was regularly listed among the top 25 best destinations for foreign investments.

According to UNCTAD's *World Investment Report 2002*, annual average foreign direct investment (FDI) in Malaysia 1985–1995 was close to \$3 billion, amounting to an average 14.5% of the country's annual gross fixed capital formation. In 1996, annual FDI rose above \$7 billion to a record high. A strong first half in 1997 brought the year's total to \$6.3 billion before falling over 57% to \$2.7 billion in 1998 reflecting the rapid disinvestments that precipitated the Asian Financial Crisis. Recovery was sharp, if incomplete, however, and FDI reached \$3.89 billion in 1999, 22.2% of the gross fixed capital formation (GFCF), and \$3.8 billion, 16.5% of GFCF, in 2000. However, in 2001, in the context of a worldwide contraction in foreign investment of almost 50%, FDI to Malaysia fell a precipitous 85.4% to \$554 million. Total stocks of FDI in Malaysia grew 83.6% in period 1995 to 2000, from \$28.7 billion to \$52.7 billion, and from 32.3% to 58.8% as a percent of GDP. In 2001, the total FDI stock increased only 1% as the total reached \$53.3 billion. The largest investment sources are the United States, Japan, Germany, Taiwan, Singapore, and Korea.

In 1996 the government announced a list of 31 major infrastructure projects to be built between 1995 and 2020 at a cost of M\$163 billion. The Second Industrial Master Plan (1996 to 2005) outlined investment opportunities. These have drawn a huge influx of foreign investment. They include the Bukun hydroelectric dam in Sarawak, Southeast Asia's largest; and the projects involved in the development of the Multimedia Super Corridor (MSC): the Petronas Twin Towers, the world's tallest; one of the region's most modern airports; and Putrajaya, the new capital city and administrative center for electronic government, and Cyberjaya, Malaysia's center for computer technology. The United States emerged as an important investment source in recent years, with manufacturing investments in 1998 totaling \$1.7 billion. Most foreign investment is concentrated in the production of electronic components, consumer electronics, and electrical goods (dominated by US and Japanese firms), petroleum production and distribution, textiles, vehicle assembly, steel, cement, rubber products, and electrical machinery.

Malaysian outward investments 1985 to 1995 amounted to less than a quarter of inward investments, with an annual average of \$677 million. However, in 2001 and 2002, this ratio had more than doubled to about 50%. A significant source of outward investments is Petroliaam Nasional Berhad (PETRONAS), the state oil company incorporated in 1974 during the first oil shock. In 2002, domestic petroleum reserves had fallen to about 3 billion barrels of oil and 2.34 trillion cu m (82.5 trillion cu ft) of gas. Overseas investments in the upstream sectors (exploration, development and production) of the petroleum industries in 20 countries have, as of 2002, yielded an additional 3.25 billion barrels of oil equivalent. In international investments involving downstream operations (refining, distribution, marketing), PETRONAS's acquisition of the entire share holding of Engen Ltd., a South African oil company, increased its net refining capacity by almost 40%, to 361,500 bpd. The state company's other downstream activities include liquefied petroleum gas (LPG) terminalizing, bottling, and distribution in China, Vietnam and the Philippines, and refining and retailing in the Cambodia and Thailand.

### 39 ECONOMIC DEVELOPMENT

In the last 20 years, Malaysia economy has been transformed from a protected low income supplier of raw materials to a middle income emerging multi-sector market economy driven by manufactured exports, particularly electronics and semiconductors, which constitute about 90% of exports. Since 1970, and the institution of the New Economic Policy (NEP) following deadly riots in 1969 against economically dominant ethnic Chinese, the government's commitment to the free market has been hedged by its *bumiputurna* (literally, "sons of the soil") policies aimed at providing "constructive protection" for Islamic Malays against economic competition from other ethnic groups and foreign investors, particularly in the domestic market. In the Asian financial crisis of 1997, most of the major companies that the government had privatized and reserved for bumiputurna leadership, including Proton, the national car company, Malaysian Airlines, the Renong engineering group, and the Malaysian Resources media group, had to be renationalized to prevent their collapse. A vigorous recovery program mounted by the government that was showing positive results in 1999 and 2000 ran abruptly into the wall of the 2001 global slowdown. Worldwide, foreign direct investment dropped almost 50%, and in Malaysia the decline was an even more precipitous 85%. Gross domestic product growth dropped to 0.7% for 2001, from its usual 7% to 9%. Business in Malaysia remains dominated by non-Malays. Annual growth rates, which had been running 7% to 9%, came abruptly up against a wall in 2001. The government remains generally committed to a policy of free enterprise, although it owns and operates the railway and the majority of the communications systems and has become increasingly involved in certain key industries.

In 1970, a government holding company, Perbadanan Nasional (PERNAS), was created to encourage Malay-controlled businesses; in 1975, the government attempted, through PERNAS, to strengthen Malaysian interests in the tin-mining sector. Also in 1974, the government established the National Oil Co. (PETRONAS), with the overall aim of acquiring majority control of the country's petroleum operations. The Industrial Coordination Act of 1975 attempted to accelerate indigenous Malay participation in the economy by setting limits on foreign participation in the processing, domestic distribution, and export of local raw materials. In 1971, the New Economic Policy (NEP) was adopted, with the aim of channeling a greater share of future economic growth into Malay hands. It specifically called for raising the level of corporate ownership by Malays to 30% by 1990, reducing corporate ownership by other Malaysians (i.e., Chinese and Indians) to 40%, and restricting foreigners to ownership of no more than 30%. Short-term investment strategies are set forth in a series of economic plans. The fourth Malaysia plan (1981–85) proposed a level of development spending of M\$42.8 billion and called for acceleration of the NEP goals for Bumiputra economic participation. Major industrial and infrastructural development projects included a M\$900-million bridge between Pulau Pinang and the mainland and a M\$600-million automobile-manufacturing plant, both of which opened in 1985. Recent economic planning has stressed a "look East" policy, with Malaysia attempting to emulate the economic successes of Japan and the Republic of Korea by importing technology from those countries. In response to deteriorating prices for oil and other exports, the fifth Malaysia plan (1986–90) has moved away from the goals of the NEP, aiming instead at promoting foreign investment, particularly in export industries.

The year 1990 marked the culmination of several economic development plans: the fifth Malaysia plan (FMP), 1986–90; the conclusion of the first outline perspective plan (OPP1) 1971–1990; and the completion of the new economic policy (NEP) 1971–1990. The FMP emphasized industrialization. Specific

targets were formulated to ensure that the distribution of ownership and participation in the commercial and industrial sector would be characterized by ethnic group participation, 30% bumiputra—Malays and other indigenous peoples of Malaysia, 40% other Malaysians (Chinese and Indian descent), and 30% foreign. The government provided funds to purchase foreign-owned shareholding on behalf of the Bumiputra population, increasing their equity to 20% by 1990. These policies are part of the new national development policy, although specific targets and time tables have been dropped. A post-1990 NEP defined Malaysian economic strategy for full development by 2020. Three ten-year outline perspective plans, which included a new development plan and six five-year plans, made up the NEP. A second outline perspective plan (OPP2) 1991–2000 aimed to sustain growth momentum and to achieve a more balanced development of the economy. The sixth Malaysia plan called for an average annual growth rate of 7.5%, and expenditures on infrastructure were included to ensure prospects for further development. Development trends are toward privatization, encouraging the spread of industry throughout the country, increasing manufacturing in the free trade zones, and providing financing for industry through the establishment of specialized financing institutions.

A five-year development plan announced by Dr. Mahathir on 6 May 1996 forecasted average growth of 8% per year from 1996 to 2000. But it also tackled issues that bothered skeptics of the Malaysian economy: low rises in productivity, a skills shortage, and a gaping current-account deficit. In 1997 and 1998, these issues, along with a global financial crisis based in Asia caused the downturn that skeptics expected. Prospects for continuation of the second industrial master plan for 1996 through 2005 seemed grim, although the economy began to rebound in 1999. Massive capital and infrastructure projects have attracted foreign investment and international respect.

#### 40 SOCIAL DEVELOPMENT

Public financial assistance should be considered within the framework of Malaysian society, with its highly developed sense of family and clan responsibility. The government has generally encouraged volunteer social welfare activities and has subsidized programs of private groups. The Department of Social Welfare, under the Ministry of Welfare Services, administers and coordinates social assistance programs. The government's program of public assistance takes the form of cash, commodities, and institutional care. Children's services provide case-work services and administer children's homes. A probation service provides care and assistance for juvenile delinquents and dependents, and a handicapped persons' service aids the deaf, mute, and blind. In addition, care is provided for the aged and chronically ill.

A provident fund has provided lump-sum benefits for old age, disability, and death. Pensions are funded by 11% contributions of earnings by workers, and 12% of payroll by employers. The retirement age is 55. Work injury insurance and disability pensions to low-income workers is available, with a special system for public employees.

The government has taken active measures to improve the rights and standing of women. The Islamic Family Law was revised to strengthen the inheritance rights of Muslim women and to increase their access to divorce. The government passed a domestic violence bill that allows the courts to protect victims of spousal abuse. However, this law falls short of making domestic violence a criminal act that may be tried under the existing law regarding assault and battery. Most Muslim women play subordinate roles in public and private life in spite of their growing legal rights. In family and religious matters, Muslim women are subject to Islamic law, which allows polygyny. Custom favors men in matters of inheritance. Some Malays

practice a modified form of female genital mutilation. Except in teaching and nursing, women are underrepresented in professional occupations.

Human rights abuses include arbitrary arrest and detention, torture, and other types of prisoner abuse. Caning is still used for some crimes.

#### 41 HEALTH

Malaysia enjoys a comparatively high standard of health, the result of long-established health and medical services. The country has improved its health care and social conditions and is considering a national health insurance plan. There are three main hospitals in Malaysia, all located in the capital, Kuala Lumpur: Subang Jaya Hospital, General Hospital, and Penang Adventist Hospital. Approximately 80% of the population had access to health care in 1993. As of 1999, there were an estimated 0.7 physicians and 2.0 hospital beds per 1,000 people. In the same year, total health care expenditure was estimated at 2.5 % of GDP. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24.22 and 5.2 per 1,000 people. In 1990–95, 51% of married women (ages 15 to 49) used contraception. Life expectancy has risen over the last decade and was 73 years in 2000. In 1994–95, 90% of the population had access to safe water, and 94% had adequate sanitation.

Under the tuberculosis control campaign, begun in 1961, the number of annual deaths from tuberculosis declined to 971 in 1970 and 672 in 1983. In 1999, there were only 111 reported cases of tuberculosis per 100,000 people. As a result of the yaws elimination campaign, begun in 1954, the disease was virtually eliminated in the late 1960s. A malaria eradication program, begun in 1967, resulted in a drop in the number of hospital admissions for malaria from 25,400 in 1970 to 8,274 in 1984. Malaria remains a common disease in Malaysia. At least 39,890 cases of malaria were reported in 1993.

In 1989–95, 23% of children under five years of age were still considered malnourished. Immunization rates from 1990–94 for children up to one year old were quite high: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 90%; polio, 90%; and measles, 81%. In 1999, rates for DPT and measles were, respectively, 93% and 88%.

Tobacco use has increased since the mid-1980s. As of 1995, each adult smoked an average of 1.9 kg (4.2 lbs) of tobacco per year. Between 1970 and 1989, cardiovascular disease death rates more than doubled. Among the main ethnic groups in Malaysia, those of Indian origins have the highest mortality rates compared to the Chinese and Malay. Similar trends exist for diabetes mortality.

As of 1999 the number of people living with HIV/AIDS was estimated at 49,000 and deaths from AIDS that year were estimated at 1,900. HIV prevalence was 0.42 per 100 adults. Infant mortality in 2000 was 8 per 1,000 live births. The maternal mortality rate in 1998 was 39 per 100,000 live births. The total fertility rate has dropped from 4.2 in 1980 to 3 in 2000.

#### 42 HOUSING

A total of 744,000 new housing units were built during 1970–80, and an estimated 923,300 units—43% public and 57% private—were planned under the 1981–85 development plan. About 92% of all housing units were detached houses, 7% were apartments, and 1% were single rooms.

The need for urban housing is acute: an estimated 24% of Kuala Lumpur's population consists of recently arrived squatters living in overcrowded shantytowns with few urban amenities. A government plan for low-cost housing was expected to provide 80,000 units per year from 1986 to 1988. In the mid-1990s, the total number of housing units was 3,403,000.

### 43 EDUCATION

Six years of free primary education are followed by three years of comprehensive general and prevocational education. Two further years of education at the post-comprehensive level, in either a vocational or an academic program, are offered. A two-year pre-university course prepares students for admission to the universities. Malay is the medium of instruction in primary and secondary schools, with English as a compulsory second language. Muslim religious instruction is compulsory for all Muslim children while private Christian schools offer religious training to their students. For the year 2000, an estimated 12.5% of the adult population (males, 8.5%; females, 16.4%) was illiterate. As of 1999, public expenditure on education was estimated at 4.6% of GDP.

In 1997, primary schools enrolled 2,840,667 pupils, instructed by 148,000 teachers. Student-to-teacher ratio stood at 19 to 1. In secondary schools, there were 1,889,592 pupils, instructed by 102,139 teachers, in 1998. The pupil-teacher ratio at the primary level was 20 to 1 in 1999. In 1996, 210,724 students were enrolled and 14,960 teaching faculty were employed in institutions of higher education, which include the Universiti Kebangsaan Malaysia (the National University of Malaysia), the University of Malaya, and the Technological University of Malaysia, all in or near Kuala Lumpur, and the University of Science Malaysia (formerly the University of Pinang). The MARA Institute of Technology is the largest post-secondary institute in the country.

### 44 LIBRARIES AND MUSEUMS

The National Library of Malaysia, with more than 1.3 million volumes, was established in 1971 and has been charged with wide responsibilities under the National Library Act. Both the National Library and the National Archives are in Kuala Lumpur. The National University of Malaysia (Universiti Kebangsaan Malaysia) in Bargi has 945,000 volumes. Other important libraries are those at the universities; the Sabah (380,000) and Sarawak (500,000) state libraries; Tun Abdul Razak Library at the MARA University of Technology (569,000); and the library of the Malaysian Rubber Board (120,000). The largest public libraries are in Denang, Malacca, and Selangor.

The National Museum of Malaysia in Kuala Lumpur, constructed on the site of the former Selangor Museum (destroyed in World War II), houses extensive collections of Malayan archaeology, ethnography, and zoology. The Perak Museum in Taiping, founded in 1883, has a varied collection exhibiting antiquities, ethnographic, and zoological materials. Also in Kuala Lumpur are the Museum of Asian Art (1974), the Postal Museum, the Air Force Museum, and the National Art Gallery (1958). Sabah and Sarawak maintain anthropological and archaeological collections pertinent to East Malaysia. There is an Aboriginal Affairs Museum in Gombak.

### 45 MEDIA

The government owns and operates a well-developed and well-equipped telecommunications system. In 2000, Malaysia had over 4.6 million mainline telephones, including private wire and public coin stations. The same year, there were an additional 5 million cellular phones in use throughout the country. Automatic dialing for the majority of exchanges is provided by a VHF radio circuit. Telegraph and radiotelephone connections link Peninsular Malaysia with most foreign countries.

Radio-Television Malaysia (RTM) operates radio and television stations in Kuala Lumpur, Sabah, and Kuching, and there is a commercial station, Sistem TV-3 Berhad, in Kuala Lumpur as well. Broadcasts are in English, Malay, five Chinese dialects, Tamil, and numerous local languages and dialects. As of 2001 Malaysia had 35 AM and 391 FM radio stations and 1

television station. In 2000, there were 420 radios and 168 televisions sets for every 1,000 people. In 2001, there were 4.1 million Internet subscribers served by seven service providers.

Malaysia generally has enjoyed a large measure of press freedom. In October 1987, however, the government closed four newspapers in an effort to end criticism of its policies. While the press is normally moderate and objective, it treads carefully when dealing with Malaysia's plural ethnic and cultural foundations. There are about 80 English, Malay, Chinese, and Tamil daily and weekly newspapers. The Malay-language press is the largest segment, followed by English, Chinese, Tamil, Punjabi, and Kadazan. The leading Kuala Lumpur dailies (with their 2002 circulations) are as follows:

	LANGUAGE	CIRCULATION
<i>Berita Harian</i>	Malay	350,000
<i>Utusan Malaysia</i>	Malay	240,000
<i>China Press</i>	Chinese	210,000
<i>New Straits Times</i>	English	190,000
<i>Nanyang Siang Pau</i>	Chinese	183,800
<i>Malaysian Namban</i>	Tamil	NA Major

Papers in Petaling Jaya include:

	LANGUAGE	CIRCULATION
<i>New Life Post</i> (every other week)	Chinese	231,000
<i>Sin Chew Jit Poh</i> (daily)	Chinese	227,070
<i>The Star</i> (daily)	English	220,490

Though the constitution provides for freedom of speech and a free press, in practice the government is said to restrict the flow of information deemed "sensitive" including issues regarding citizenship of non-Malays and the special position of Malays in society. The media generally practices self censorship, providing laudatory, noncritical coverage of government activities.

### 46 ORGANIZATIONS

The Malaysian government promotes thrift, credit, processing, marketing, farming, consumer, and housing cooperatives. The cooperative movement was introduced in Malaya in 1922. The Chinese are organized along clan, common dialect, or occupational lines into rural credit associations. These local associations set up and maintain schools, build temples, and provide burial, relief, and employment services. In the larger cities, chambers of commerce, organized along ethnic lines, promote the economic welfare of the group represented.

Cultural organizations include the multinational Royal Asiatic Society and the International Institute of Islamic Thought and Civilization. Educational and research organizations include the Malaysian Medical Association and the Malaysian Scientific Association.

Kiwanis and Lion's clubs have programs in the country. Youth organizations include the Federation of Malay Student Unions, Girl Guides Association of Malaysia, Malaysia Council of Churches Youth Division, Muslim Youth Movement of Malaysia, National Union of Malaysian Muslim Students, and the United Malaysian Youth Movement. YMCA/YWCA chapters are also active. The Red Crescent Society is active in the country.

### 47 TOURISM, TRAVEL, AND RECREATION

In 2000, Malaysia had 134,503 hotel rooms with an occupancy rate of 58%. Most large hotels are in the major cities of Kuala Lumpur and George Town. The best-known hill resort areas are Cameron Highlands, Raub, and Pinang Hill. Island resorts off the coast of the peninsula are Langkawi and Pangkor. Horse racing, soccer, rugby, cricket, and sepak raga (a form of badminton) are popular spectator sports. Kite fighting and top spinning are traditional pastimes for children and adults, and silat (a Malay martial art) is popular in rural areas.

Passports are required of all entrants, although Malaysia has visa abolition agreements with all Commonwealth countries, the US, and other countries. Yellow fever inoculations are necessary for those arriving from infected areas.

Tourists numbered 10,221,582 in 2000 with receipts of about \$4.9 billion.

The estimated cost of staying in Kuala Lumpur, according to 2002 US government estimates, was \$129 per day.

#### 48 FAMOUS MALAYSIANS

Among the foremost Malaysian leaders of the past was Sultan Mahmud, 16th-century ruler of Malacca. A great figure in Malay culture was 'Abdallah bin 'Abd al-Kabir (surnamed Munshi', 1796–1854), sometimes called the greatest innovator in Malay letters. The best-known figure in the political life of modern Malaysia is Tunku Abdul Rahman Putra bin Abdul Hamid Halimshah (1903–1990), first prime minister of the Federation of Malaysia. Other political leaders are Tun Abdul Razak (1922–76), the nation's second prime minister (1970–76); Datuk Seri Mahathir bin Mohamed (b.1925), prime minister since 1981; Dato Onn bin Ja'afar (1895–1962), a founder of the United Malays National Organization; and Sir Cheng-lock Tan (1883–1960), leader of the Malaysian Chinese Association.

#### 49 DEPENDENCIES

Malaysia has no territories or colonies.

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# MALDIVES

Republic of Maldives

*Dhivehi Raajjeyge Jumhooriyyaa*

**CAPITAL:** Malé

**FLAG:** The national flag consists of a white crescent at the center of a green field which, in turn, is at the center of a red field.

**ANTHEM:** *Gavmii mi erkuverikan matii tibegen kuriime salaam* (In National Unity Do We Salute Our Nation).

**MONETARY UNIT:** The Maldivian rupee, or rufiyaa (MR), is a paper currency of 100 laris. There are notes of ½, 1, 2, 5, 10, 50, and 100 rufiyaa. The dollar circulates freely and is the only currency accepted at some resorts. MR1 = \$0.0784 (or \$1 = MR12.75) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system has been adopted, but some local units remain in use.

**HOLIDAYS:** National Day, 7 January; Independence Day, 26 July; Republic Day, 11 November; Fishermen's Day, 10 December. 'Id al-Fitr, 'Id al-'Adha', and Milad an-Nabi are some of the Muslim religious holidays observed.

**TIME:** 5 PM = noon GMT.

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

The smallest country in Asia, the Republic of Maldives consists of an archipelago of nearly 1,200 coral islands and sand banks in the Indian Ocean, some 200 of which are inhabited. The chain of islands sits astride the equator, south of India and west of Sri Lanka, extending 823 km (511 mi) but occupying an area of just 300 sq km (116 sq mi). The area occupied by Maldives is slightly more than 1.5 times the size of Washington, D.C. Grouped in 26 atolls, with a total coastline of 644 km (400 mi), the northernmost atoll lies some 110 km (70 mi) south of India's Minicoy Atoll, about 480 km (300 mi) southeast of India's Cape Comorin, and 649 km (400 mi) west of Sri Lanka.

Maldives' capital, Malé, is situated on a 2.5 sq km (1 sq mi) island, the largest in the entire chain, in the Malé Atoll.

## <sup>2</sup>TOPOGRAPHY

The islands vary from tiny banks to real islets. Some of the islands are in process of formation and are constantly increasing in size; others are gradually washing away. The islands are level and extremely low-lying, with elevations rarely exceeding 1.8 m (6 ft) above sea level. Many contain freshwater lagoons.

## <sup>3</sup>CLIMATE

The Maldives' equatorial climate is generally hot and humid, with a mean temperature of about 27°C (81°F). The weather during the northeast monsoon (November–March) is mild and pleasant; the southwest monsoon (June–August) is violent and very rainy. The northern atolls are subject to more violent storms than those in the south. Annual rainfall in the south averages about 380 cm (150 in); in the north, 250 cm (100 in).

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

The islands are covered with a dense scrub. The northern and southern islands are more fertile than those in the central group, and the eastern islands generally are more fertile than the western. Coconut, breadfruit, plantain, papaya, mango, and banyan trees flourish. Shrubs and flowers are widespread. Rats,

rabbits, and flying foxes are the only indigenous mammals. Birds include ducks, bitterns, crows, curlews, snipes, and various sea birds. Small scorpions, beetles, and land crabs are common. Inland lagoons and coastal reefs contain tropical ocean fish, crustaceans, and turtles; the surrounding waters contain sharks, swordfish, and porpoises.

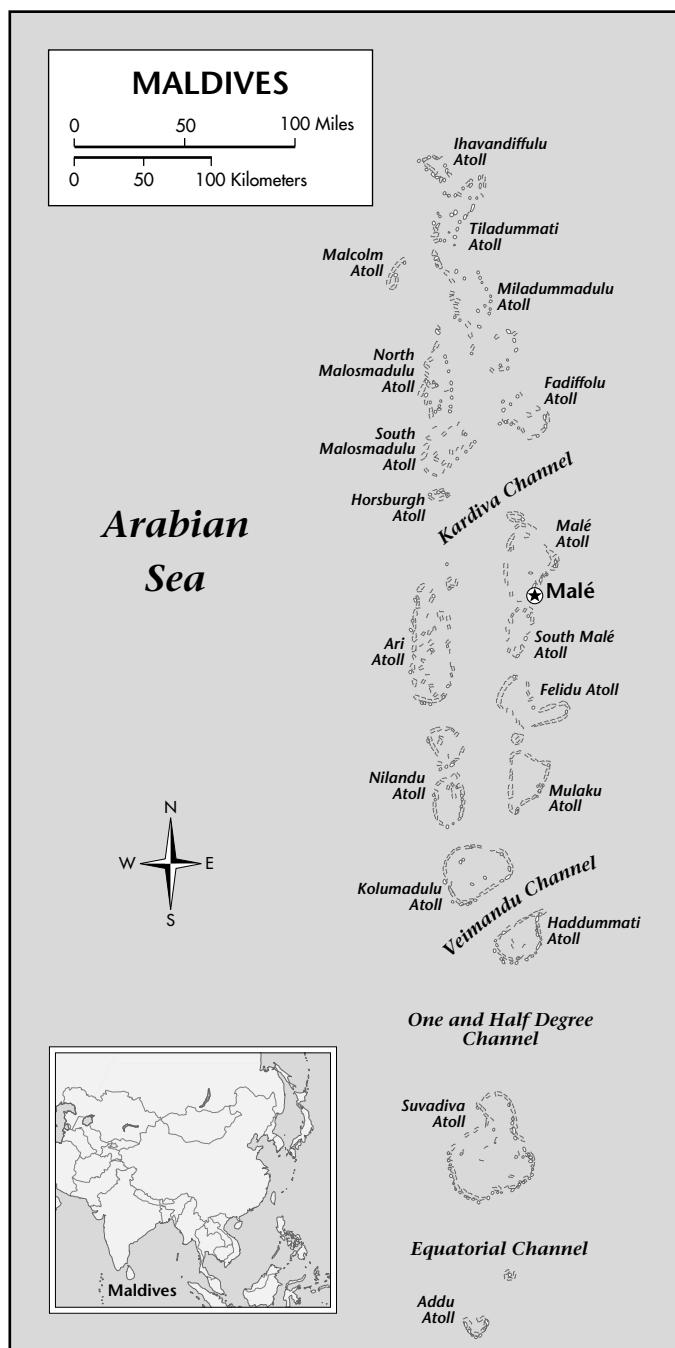
## <sup>5</sup>ENVIRONMENT

Environmental issues in the Maldives include dwindling freshwater supply and inadequate sewage treatment. Recent estimates indicate that the nation's water supply may be exhausted in the near future, and population increases have created a sanitation problem that threatens the waters surrounding this island nation. Another significant environmental problem is a rise in sea levels due to global warming. The islands are particularly susceptible to flooding. Environmental preservation is complicated by the unique problems of a nation consisting of 1,200 islands spread over 510 miles of the Indian Ocean. Preservation of the desert island ecology, protection of marine life and coral reefs, and coconut tree rehabilitation are additional environmental goals. The hawksbill turtle, green turtle, and blue whale are on the endangered list.

## <sup>6</sup>POPULATION

The population of Maldives in 2003 was estimated by the United Nations at 318,000, which placed it as number 167 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 41% of the population under 15 years of age. There were 105 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.98%, with the projected population for the year 2015 at 447,000. The population density in 2002 was 937 per sq km (2,426 per sq mi).

It was estimated by the Population Reference Bureau that 26% of the population lived in urban areas in 2001. Malé, the capital and sole urban settlement, had a population of 72,000 concentrated on an island of only about 1.9 sq km (0.75 sq mi).



LOCATION: 7°7' N to 0°43' S; 72°31' to 73°46' E. TERRITORIAL SEA LIMIT: 12 miles.

According to the United Nations, the urban population growth rate for 2000–2005 was 3.8%.

## 7 MIGRATION

Inter-island migration is limited to settlement in Malé; between 1967 and 2000, population in the capital rose from one-tenth to nearly one-quarter of the national total. In 1999, the net migration rate was zero. The total number of migrants in 2000 was 3,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The original inhabitants of the Maldives are thought to have been of south Indian and Arab origin. The people of the northern atolls have to some extent intermarried with peoples from western India, Arabia, and North Africa. Inhabitants of the southern islands show stronger physical affinities with the Sinhalese of Sri Lanka. Black African slaves imported from Zanzibar and Arabia have intermarried with the Maldivians, and there are also some Caucasian and Malayan elements.

## 9 LANGUAGES

The Maldivian language, called Divehi, is similar to the old Sinhala (Elu) of Ceylon. It has contributed the word *atoll* to international terminology. In recent years, the language has been influenced by Arabic and Urdu. Thaana, developed during the 17th century, is the corresponding script, written from right to left. English is spoken by most government officials, but only by a small number of the Maldivian population.

## 10 RELIGIONS

Though there is evidence that the early Maldivians were Buddhists, their conversion to Islam dates from 1153. With few exceptions, the people are Sunni Muslims, and both land ownership and citizenship are limited to adherents to this faith. Non-Muslim foreigners working in or visiting the country are permitted to practice their own religion privately. There are no non-Muslim places of worship. Proselytizing for non-Muslim faiths is prohibited. The government's Department of Religious Affairs regulates matters pertaining to religion.

## 11 TRANSPORTATION

Malé, the capital, and some other islands have fairly good streets. Most people travel by bicycle or on foot. Interatoll transportation still depends mostly on local sailing boats, called *batheli* and *odi*. Although some mechanized boats carry cargo and, occasionally, passengers between Malé and other atolls, interisland transport is mainly by means of *dhonis* (small boats). Only a few of the islands are big enough to support automobiles. As of 2002, the Maldives had a fleet of 14 vessels, totaling 51,532 GRT, serving worldwide destinations, all controlled by Maldives Shipping Ltd., a public enterprise. In 2001, the Maldives had five airports, two of which had paved runways. Hulule, Malé's international airport, two km (one mi) away over water from the capital, was completed in 1966. Built with assistance by Sri Lanka under the Colombo Plan, it consists of two islands that were joined together to create a runway. It is served by Singapore Airlines, Air Lanka, various European tourist carriers, and Indian Airlines, the last also operating as Air Maldivian on certain flights. Also in 2001, 311,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The first inhabitants of the Maldives were probably Dravidian speakers from south India, who were followed by Indo-European speaking Sinhalese from Ceylon in the 4th and 5th centuries BC. The island chain first became known in the West through the writings of Ptolemy, during the 2nd century AD. The island chain may have been ruled in ancient times by the Chinese; later, its rulers paid an annual tribute to principalities of western India. Maldivians were converted to Sunni Islam from Buddhism by Arab traders from east Africa and the Middle East in the middle of the 12th century, and from 1153, an unbroken line of 92 sultans served as local rulers for 800 years until 1953. In 1343, Ibn Battutah, the Arab traveler and historian, visited the islands and served for a time as a qadi.

After their discovery by the Portuguese traveler Dom Lourenço de Alameida in 1507, the Maldives were occupied by the

Portuguese and forced to pay a tribute to Goa, the center of Portugal's South Asian holdings. But the Portuguese were driven out in 1573 by Muhammad Thakurufaani al-Azam, who, after becoming sultan, introduced a monetary system, a new script, and a standing militia. In the 17th century, the Dutch, who controlled neighboring Ceylon (now Sri Lanka), concluded a treaty with the sultanate which thereafter paid tribute to the rulers of Ceylon and claimed their protection.

The British completed their occupation of Ceylon in 1815, and British responsibility for the protection of the Maldives was formally recorded in 1887. By terms of the compact, the sultan recognized the suzerainty of the British sovereign and disclaimed all rights or intention to enter into any treaty or negotiations with any foreign state except through the (British) ruler of Ceylon. When Ceylon became independent in 1948, a new agreement was signed with the British government, providing for the Maldives to remain under the protection of the British crown, for external affairs to be conducted by or in accordance with the advice of the British government, for Britain to refrain from interfering in the internal affairs of the islands, and for the sultan to afford such facilities for British forces as were necessary for the defense of the islands or the Commonwealth. No tribute was to be paid by Maldives. New agreements reaffirming these provisions were signed in 1953, 1956, and 1960.

The sultanate, dominated by the Didi family since 1759, was abolished in 1953, and the Maldives was declared a republic. The first president, Amin Didi, ordered the emancipation of women and other reforms that were resented by more conservative elements among the people, and nine months later he was overthrown. His cousins Muhammad Farid Didi and Ibrahim 'Ali Didi became co-presidents in September 1953, and a month later the National Assembly voted to restore the sultanate. The new sultan, Muhammad Didi, was installed at Malé on 7 March 1954, and Ibrahim 'Ali Didi, the prime minister, formed a new government.

The government's agreement in 1956 to permit Britain to maintain an air base on Gan Island in the southern Maldives produced a public reaction so strong that Prime Minister Ibrahim was forced to resign in December 1957. Ibrahim Nasir, who succeeded him, asserted that the British base would violate Maldivian neutrality, but when his government sent a representative to Gan to tell the islanders to stop working for the British, the islanders attacked him.

Early in 1959, the people of Addu Atoll, in which Gan Island is located, declared their independence. At the same time, a rebellion broke out in the three southernmost atolls (including Addu). The rebel headmen declared the formation of the United Suvadiva Republic (with a population of 20,000) and demanded recognition from London. The British refused to comply, but the Nasir government made public its suspicions that the coup had been engineered by the British. In the event, government forces crushed the rebels in two of the atolls but made no attempt to interfere on Gan or any of the other seven main islands in the Addu group. By March 1960, the Suvadiva Republic was declared dissolved, and a committee ruling under the sovereign control of the sultan was set up, including among its members 'Abdallah Afif, leader of the rebellion.

In February 1960, the Maldivian government made a free gift to the British government of the use of Gan Island and other facilities in Addu Atoll for 30 years, and a fresh agreement was drawn up between the governments. In return, the British agreed to assist in bringing about a reconciliation between the Maldivian government and the disaffected inhabitants of the southern islands. But by 1962, resentment had grown against the British owing to their lack of progress in implementing the agreement; in late 1962 a Royal Navy frigate was sent to the capital island of Malé to protect British citizens. 'Abdallah Afif was evacuated by the British to the Seychelles.

The Sultanate of the Maldivian Islands achieved complete independence on 26 July 1965, with the British continuing to retain use of the facilities on Gan in return for the payment of \$2,380,000, most to be spent over a period of years for economic development. In March 1968, a referendum resulted in an 81% vote to abolish the sultanate and to reestablish a republic. A new republican constitution came into force on 11 November 1968, establishing the Republic of Maldives, and Nasir—then prime minister—became president.

With the British secure in their control of facilities they share with the United States outside the Maldives in Diego Garcia, 650 km (400 mi) east of Gan, Britain vacated the Gan air base on 31 December 1975, and the UK-Maldivian accord was formally terminated the following year.

Nasir declined renomination and was succeeded as president on 11 November 1978 by Maumoon Abdul Gayoom, who was chosen by the Citizens' Majlis (parliament) in June and was confirmed in a popular referendum by a majority of 90% on 28 July. Reelected president by the Majlis in August 1983, Gayoom won confirmation in a national referendum on 30 September with a majority of 95.6%. Gayoom was reelected to a third term in August 1988. He successfully resisted a brief attempt to overthrow him by Sri Lankan Tamil mercenaries in November 1988 with the help of an Indian military contingent flown to the Maldives at his request. In addition to the presidency, Gayoom is also minister of defense and minister for national security.

Gayoom was reelected for a fourth term as president in August 1993 and confirmed by popular referendum in September. He was elected to a fifth term, unopposed, in 1998. Gayoom's only principal rival for the presidency came in the 1993 election when his brother-in-law Ilyas Ibrahim ran against him. Ibrahim subsequently was tried in absentia for violation of the constitution, found guilty of treason, and sentenced to more than 15 years banishment from the islands.

The Maldives has been concerned for two decades about the effects of global warming on the islands. At the UN World Summit on Sustainable Development held in August and September 2002 in Johannesburg, South Africa, President Gayoom warned that his country could be submerged if a rise in sea levels due to the melting of polar ice caps continued. "A mere one-meter rise would mean the death of a nation," he stated. As world temperatures rise, the effects on the Maldives would include coastal erosion, increasing salinity of fresh water sources, altered tidal ranges and patterns, and the gradual destruction of the coral reefs that form the islands and their breakwaters.

### 13 GOVERNMENT

The constitution of the Republic of Maldives that came into force in 1968 (and amended in 1970, 1972, and 1975) was repealed and replaced by a new constitution in 1997. It came into force on 1 January 1998. The Citizens' Majlis (parliament) nominates a single candidate for the presidency, who is confirmed in office thereafter by popular referendum. The president heads the executive branch and appoints the cabinet and is constitutionally permitted to have as many vice presidents as he desires. The president serves a five-year term of office. Presidential elections must be held by October 2003.

The unicameral Majlis is a body of 50 members, 42 of whom are directly elected (2 from each of the 20 inhabited atolls and 2 from the capital island of Malé) by universal suffrage of citizens over 21. Eight members are appointed by the president. Members serve five-year terms. The Majlis drafts legislation that becomes law after ratification by the president. The Majlis also nominates the president by secret ballot. The candidate is then approved by referendum of the population.

Elections to the Majlis are held individually and do not necessarily coincide with its sessions. Elections were held in



December 1994 and December 1999. They are next due to be held in November 2004.

## 14 POLITICAL PARTIES

There are no organized political parties. While not banned, they are officially discouraged. Candidates for office stand for election as independents and campaign on their family and personal stature.

## 15 LOCAL GOVERNMENT

The Maldives is divided administratively into 20 districts, each a discrete atoll headed by a government-appointed *verin*, or chief, who functions in the manner of a District Officer. On each inhabited island a *khatib*, or headman, also appointed by the government, supervises and carries out the orders of the government under the supervision of the atoll chief. Malé and Hulhulé (the island of the international airport) are geographically in Kaafu Atoll, but are treated as a separate administrative entity.

## 16 JUDICIAL SYSTEM

Justice is meted out according to traditional Islamic law (Shari'ah) by the high court and lower courts appointed for that purpose by the president and functioning under the Ministry of Justice. Civil law is also applied but remains subordinate to Shari'ah. Judges must be Muslims.

On the capital island, Malé, there is a high court which hears a range of cases as a court of first instance and also serves as a court of appeal. Lower courts each deal with a specific area such as theft, property or family law issues. The 1995 presidential decree gives power to a five-member advisory council appointed by the president to review the high court's decisions. The president also has authority to affirm judgments of the high court, to order a second hearing, or to overturn the court's decision.

On the other islands, there is one all-purpose lower court in which cases are often adjudicated by traditional legal practitioners. Complex cases are referred to the appropriate specialized court in Malé. There are 204 general courts on the islands.

In criminal cases there is no jury trial. The accused may call witness and may be assisted by a lawyer. There are, however, few professionally trained lawyers in Maldives, and the court does not provide a lawyer to an indigent defendant. The judiciary is subject to executive influence. The president may grant pardons and amnesties.

## 17 ARMED FORCES

The armed forces of the Maldives consist of a paramilitary national security service and militia of a few hundred. Armed boats patrol the territorial waters to protect the local fishing industry. Military expenditures amounted to \$34.5 million in 2001 or 8.6% of GDP.

## 18 INTERNATIONAL COOPERATION

The Maldives, which joined the UN on 21 September 1965, is a member of ESCAP and all the nonregional specialized agencies except IAEA, ILO, and WIPO. Special membership status in the Commonwealth of Nations was granted 9 July 1982. Maldives is member of the WTO, participates in G-77, and is a signatory to the Law of the Sea.

An active member of the nonaligned movement, Maldives has led efforts to declare an Indian Ocean Peace Zone, free of nuclear arms. In October 1977, the government rebuffed an offer from the former USSR to lease Gan as a base for its fishing fleet for \$1 million annually. The Maldives participates in the Islamic Conference and has been a recipient of Arab financial and technical aid.

Sri Lanka has traditionally served as the Maldives' focus in its external affairs. However, this has been broadened in the last few decades as the Maldives entered into diplomatic relations with more countries and communication and transportation have opened up with the outside world.

## 19 ECONOMY

As of 2003, the Maldives remains on the UN list of least developed countries, yet economic progress has been steady. The first tourist resort was opened in 1972. In 1989 the government lifted import quotas and liberalized some sectors of trade. Gross domestic product growth rates averaged about 10% in the 1980s, and about 7% in the 1990s. In the 1990s the peak was 16% (1990) and the low 4% (1993). In 1998 and 1999, real GDP growth reached 9.1% and 8.5%, respectively, but fell to 4.8% in 2000, following a decline of -2.3% in agriculture (including coral and sand mining) and of -0.5% in industry. Growth recovered to 5.7% in 2001.

Fishing, tourism, and shipping are the mainstays of the economy, employing over half of the work force. The tourism industry has become particularly important, accounting for about 20% of GDP, 31% of government revenues, and more than 60% of the country's foreign exchange earnings in 2002. The government is seeking to continue diversifying the economy through further promotion of tourism, processing industries, and garment production. Besides tourism, GDP is comprised of distribution, 4.5%; construction, 3%; fisheries, 6%; agriculture, 3%; transportation and communication, 16%; government administration, 12%; and manufacturing and electricity, 8%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Maldives's gross domestic product (GDP) was estimated at \$1.2 billion. The per capita GDP was estimated at \$3,870. The annual growth rate of GDP was estimated at 7%. The average inflation rate in 2000 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 20% of GDP, industry 18%, and services 62%. Foreign aid receipts amounted to about \$89 per capita and accounted for approximately 5% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$451. 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%.

## 21 LABOR

There were approximately 72,000 members of the Maldives workforce in 2002, one-third of whom were foreign workers. About 20% of the workforce in 1999 was employed in fishing; 15% in industry; 10% in tourism, and 55% in other sectors. The unemployment rate was negligible.

Union organization is not prohibited but the government does not recognize union organization or striking as a right. However, some associations have been formed to address workers' rights.

The minimum working age is 14 (16 for government work) and there were no reports of children working in the formal economic sector in 2001. However, children work in family agricultural and fishing enterprises. There are no specific statutory provisions regarding working hours, the workweek length, or overtime pay. Administrative orders from the president's office have set a seven-hour workday and a five-day workweek. There is no national minimum wage, but wage floors

exist for certain kinds of work. Although no statutory provisions are in place, employers offer competitive pay and working conditions. Wages generally provide a family with a decent standard of living.

## 22 AGRICULTURE

Only 10% of the land is estimated to be cultivable. Millet, corn, pumpkins, sweet potatoes, pineapples, sugarcane, almonds, and many kinds of tropical vegetables and fruits are successfully grown, largely in homestead gardens. Coconut palms provide copra and coir, the most important exports after fish. Virtually all rice, a staple food for the population, must be imported. Breadfruit, mangoes, papayas, limes, bananas, pumpkins, watermelon, taro, and chili peppers are also valuable crops. As of 1999, small amounts of corn, millet, and sorghum were cultivated. Production in 1999 included 12,000 tons of coconuts and 2,000 tons of copra.

## 23 ANIMAL HUSBANDRY

Fodder is insufficient for more than a few head of cattle, but there are many goats and chickens.

## 24 FISHING

Fishing is the chief industry (accounting for 11% of GDP), with the main catch being skipjack and yellowfin tuna. About half the annual harvest is frozen, canned, or dried and exported to Thailand, Europe, and Sri Lanka. The Maldivian fisheries sector underwent a major transformation during the 1980s and became increasingly productive through modernization of catch collection and processing methods. Expansion of the canning industry and investment in fisheries diversification is ongoing. The fish catch in 2000 totaled 132,437 tons; exports of fish were valued at \$40.9 million that year. Annual per capita consumption of fish and shellfish in the mid-1990s averaged 175.5 kg/386.9 lb (live-weight equivalent), greater than that of any other nation. Shell gathering is a relatively important activity in the Maldives, with large quantities of cowries exported for use as ornaments. Several rare shell species are also collected.

## 25 FORESTRY

There are no forests as such. Coconut wood, however, is used in the building of boats and the construction of houses. Imports of forest products amounted to \$4.2 million in 2000.

## 26 MINING

There were no known mineral resources.

## 27 ENERGY AND POWER

The power plant in Malé, with a capacity of 25,000 kW, provided 85 million kWh of electricity for the island in 1998. More than half of this amount was distributed to residences, and one-quarter to government buildings. A smaller plant on Hulule supplies power for the airstrip on that island. About 55% of total energy consumption comes from wood. Nearly all of the inhabited islands of the Maldives (194 out of 199) have access to electricity; in late 2001, the Asian Development Bank issued an \$8 million loan to boost the availability and supply of power to 40 outlying islands of the Maldives. In 2000, net electricity generation for all of Maldives was 110 million kWh, of which 100% came from fossil fuels. In the same year, consumption of electricity totaled 102.3 million kWh. Total installed capacity at the beginning of 2001 was 25 MW.

## 28 INDUSTRY

The manufacturing sector is small and limited by the shortage of domestic labor. Important traditional industries in the Maldives include, boat building, the manufacture of coir, a rope made from dried coconut fibers, and lacemaking (handmade pillow lace),

introduced by the Dutch in the 17th century. Maldivian lacquerwork and finely woven mats are famous for their quality and design. Coconuts, copra, shells, tortoiseshell, bone dust, red stone, ambergris, and handicrafts are also produced locally as well as exported. All fishing is done by the traditional line and pole method as the use of nets is illegal. The country's fishing fleet of small, flat bottomed boats have, however, shifted from using sails and oars to outboard motors. In May 2001, the government ended its monopoly of the export tuna sector, and in 2002 four Maldivian operations were licensed to buy and export fresh tuna. Modern industry is limited to tuna canneries and other fish-processing, several apparel factories, built during the past decade, a soft drink bottling plant, and small scale manufacturing enterprises that produce PVC pipe, soap, furniture, and food products. Tourism has been developing since the first resort was built in 1977. As of November 2000, there were 84 resorts in operation, and in 2001, cruise tourism was introduced by the Ministry of Tourism.

## 29 SCIENCE AND TECHNOLOGY

Mechanized fishing operations have been the focus of research and development efforts since the 1980s, with the help of UNDP.

## 30 DOMESTIC TRADE

Malé Island is the chief commercial center. Sri Lankan and Indian merchants in Malé act as their own importers, exporters, and wholesalers. The importing of rice and exporting of ambergris are government monopolies. Tourism and its related services are a major portion of the economy. Most shops are open from 8 AM to 1:30 PM and from 2:30 to 5 PM, Sunday through Thursday. Banks and government offices are open from 9 AM to 1 PM on the same days. Most establishments are closed on Fridays.

## 31 FOREIGN TRADE

In 1989, the government initiated an economic reform program that lifted import quotas and opened exports of some commodities to the private sector (until then, exports had been entirely controlled by a state trading organization). In 2000, exports consisted almost exclusively of fish products and apparel. Manufactured goods, machinery, fuels, and food are the main imports.

Leading trade partners of 2000 are listed in the accompanying table. In the late 1970s, Mauritius, Japan, and Pakistan comprised almost 90% of the country's export market. The vast majority of Maldives' commodity exports are fish (53%) and apparel (46%).

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	34	7	27
Sri Lanka	14	53	-39
Germany	7	6	1
United Kingdom	6	10	-4
Thailand	4	13	-9
Singapore	3	99	-96
Japan	3	13	-10
India	n.a.	36	n.a.
Malaysia	n.a.	49	n.a.
United Arab Emirates	n.a.	33	n.a.

## 32 BALANCE OF PAYMENTS

Balance of payments deficits during the first half of the 1980s were caused largely by the international shipping recession, the collapse of world tuna prices, and a brief downturn in tourism caused by the violence in nearby Sri Lanka. The government began an economic reform program in 1989, by lifting import quotas and opening some exports to the private sector. In recent

years, it has encouraged more foreign investment by liberalizing regulations.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Maldives' exports was \$88 million while imports totaled \$372 million resulting in a trade deficit of \$284 million.

The International Monetary Fund (IMF) reports that in 2001 Maldives had exports of goods totaling \$110 million and imports totaling \$348 million. The services credit totaled \$354 million and debit \$109 million. The following table summarizes Maldives' balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-61</b>
Balance on goods	-238
Balance on services	245
Balance on income	-39
Current transfers	-30
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>35</b>
Direct investment abroad	...
Direct investment in Maldives	12
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	21
Other investment liabilities	2
<b>Net Errors and Omissions</b>	<b>-4</b>
<b>Reserves and Related Items</b>	<b>30</b>

### 33 BANKING AND SECURITIES

The Maldives Monetary Authority, established 1 July 1981, issues currency, advises the government on banking and monetary matters, supervises commercial banks, and manages exchange rates and exchange assets. Other banking services are provided by the Bank of Maldives (created in 1982) and commercial banks with headquarters in India, Pakistan, and Sri Lanka. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$135.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$271.6 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 6.8%.

There is no securities exchange.

### 34 INSURANCE

No recent information is available.

### 35 PUBLIC FINANCE

Public enterprises, including the State Trading Organization, the state shipping line, and public utilities, account for nearly half of government revenues; customs and tourist receipts make up most of the rest.

The US Central Intelligence Agency (CIA) estimates that in 2001 Maldives' central government took in revenues of approximately \$166 million and had expenditures of \$192 million including capital expenditures of \$80 million. Overall, the government registered a deficit of approximately \$26 million. External debt totaled \$237 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.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>166</b>
Tax revenue	40.2%	67
Non-tax revenue	55.8%	93
Capital revenue	0.4%	1
Grants	3.6%	6
<b>EXPENDITURES</b>	<b>99.7%</b>	<b>191</b>
General public services	23.6%	45
Defense	11.5%	22
Public order and safety	2.1%	4
Education	18.0%	35
Health	9.5%	18
Social security	2.4%	5
Housing and community amenities	15.1%	29
Economic affairs and services	13.8%	26
Interest payments	3.8%	7

### 36 TAXATION

There is no income or sales tax in the Maldives. Government revenues are generated by import taxes, tourism taxes, lease rentals on resorts, and earnings on state owned enterprises. License fees are charged for boats and motor vehicles. Uninhabited islands are leased for farming to individuals, who pay annual dues to the government; over 90% of these absentee landlords reside in Malé. In 1999, 48% of revenues came from taxes of which 64% were from import duties, and about 30% from tourism taxes. Non-tax revenue accounted for about 52% of government revenue.

Given the growing wealth in the country in recent years, in 2002 the government was considering bolstering government development revenues by instituting a personal income tax, though concerns remain that enforcement may prove difficult.

### 37 CUSTOMS AND DUTIES

Customs duties are a primary source of government revenues and vary from 5–20% on essentials to 35–200% on luxury goods. Staple commodities (rice, wheat, flour, and sugar) and specified medicines and textbooks are duty-free. Import duties comprised 63% of government tax revenue in 1997. Duties on consumer goods were reduced in May 1988.

### 38 FOREIGN INVESTMENT

Assistance has been received from IBRD, WHO, UNDP, UNICEF, the EU, the Colombo Plan, CARE, and other international agencies, mostly in the form of grants and low-interest loans. In the 1990s funds from donors averaged over 8% of GDP annually, although in 2000, when, according to UNCTAD, the Maldives received \$13.3 million from donors, ODA (Official Development Assistance) was only 2.4% of GDP. Liberalized foreign investment policies have been adopted in recent years in order to attract needed development capital, especially for hotel and resort construction and other businesses related to the tourism industry.

### 39 ECONOMIC DEVELOPMENT

The government has implemented a series of development programs to improve and expand fishing and related industries, textile manufacturing, food processing, tourism, communications, and health and education services. In 1986, Malé's new commercial harbor was opened, considerably speeding up cargo handling from 200–300 tons to 1,500 tons a day. Also in the late 1980s, Malé's international airport was upgraded in the late 1980s, comprising a critical factor in the growth of the country's tourism sector. Effective 1 July 1997, the Companies Act governed the formation, registration, and management of companies doing business in Maldives. Part of the economic thrust has been to lessen the reliance on fishing and to diversify the economy.

Continued expansion of tourism has been particularly targeted in government development plans for the immediate future, along

with facilitating a spread of economic activity to outlying island groups. Water taxis and scheduled sea vessel and light aircraft transportation services were developing in the late 1990s for this purpose. The Foreign Investment Services Bureau (FISB), established in August 1986 as a “one-stop service” for investors, in 2002 was encouraging investment projects that were 1) capital intensive; 2) enhance technology transfer; 3) introduce new skills and offer training to local employees; and 4) are environmentally friendly.

#### 40 SOCIAL DEVELOPMENT

The government has focused its spending on social services and preventive health services. There is no organized social welfare system. Assistance is traditionally provided through the extended family. Employees are entitled to medical and maternity leave.

In spite of traditional Islamic restrictions on the role of women, they have increased their participation in public life. Under the terms of the 1997 constitution, men and women are considered equal before the law. Women usually receive pay equal to men in similar positions. A Gender Equality Council was created to assist the government in strengthening the role of women in society. However, Islamic law discriminates against women in matters of divorce and inheritance. Women are less able to initiate and obtain a divorce. Few women choose to participate in politics, largely because of tradition and custom. Violence against women and domestic abuse are not widespread problems. Although children’s rights are explicit in law and provisions are in place to protect children from abuse, education is not compulsory. Female children are much more likely to be withdrawn from school than boys.

Human rights violations by the government include arbitrary arrest and detention and infringement of the freedoms of assembly, association, the press, and religion.

#### 41 HEALTH

As of 1995, there were an estimated 0.4 physicians, 1.1 nurses, and 1.9 midwives per 1,000 people. There is a relatively modern 86-bed hospital in Malé, backed by a 12-bed regional hospital and medical rescue services in the outlying atolls and the new Indira Gandhi Memorial Hospital (200 beds).

In 2002 the estimated fertility rate was 5.4. Between 1976–1994, 30% of children under five were underweight. The under five mortality rate has improved greatly during the last decades. The rate was 78 in 1994 but 258 in 1960. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 37.4 and 7.86 per 1,000 people. Life expectancy was estimated at 62.9 years as of 2002 and the infant mortality rate was 61.9 per 1,000 live births. In 1994, 96% of the country’s children had been vaccinated against measles. In 1996, five AIDS cases were reported. In 1994, there were 249 tuberculosis cases and in 1993, 29 malaria cases.

Safe water is available to urban dwellers. Four desalination plants were completed by 1988 and a nationwide project is providing sewage systems to the atolls. Between 1994–1995, 88% of the population had access to safe water; 40% had access to adequate sanitation. Malaria and diarrheal diseases have been drastically reduced. Water-borne disease epidemics have occurred, often caused by contamination of wells.

#### 42 HOUSING

Some of the houses on Malé are built in imitation of those in Colombo. Most residential units throughout the country have brick walls, some of which are also plastered, and roofs of galvanized metal sheets. The poorest homes are made from thatch and sticks. According to a 2000 housing census, there were about 43,556 residential units nationwide. About 96% were detached dwellings. About 325 were apartments. The average dwelling size is from three to six rooms. About 48% of all dwellings had been

built from 1990–2000. Nearly 68% of the population relies on rain water as a primary source of water; 43% of all dwellings have septic tanks. About 84% of households have electric lighting, but firewood and oil are the primary heating and cooking fuels.

#### 43 EDUCATION

For 2000, adult illiteracy rates were estimated at 3.7% (males, 3.7%; females, 3.6%). Primary level education is for five years and secondary education is in two stages: five years at the lower level and two years at the higher level. Education is not compulsory. There are three streams of Maldivian education: traditional religious schools (*makhtabs*), which teach the Koran (Qur’an), basic arithmetic, and the ability to read and write Divehi; modern Divehi-language primary schools; and modern English-language schools. Primary and secondary schooling is based on the British educational system. Distance educational courses and educational programs on the radio are also provided.

In 1998 there were 48,895 students enrolled in 228 primary schools, with 1,992 teachers. Student-to-teacher ratio stood at 25 to 1. In the same year, secondary schools had a total of 36,905 students. As of 1999, virtually 100% of primary-school-age children were enrolled in school, while only 31% of those eligible attended secondary school. Maldivians must go abroad for higher education. In the 1990s, the government began making large investments in secondary, vocational, and post-secondary education. Currently the Science Education Center in Malé provides pre-University courses, and the Center may evolve into a university. As of 1999, public expenditure on education was estimated at 3.9 % of GDP.

#### 44 LIBRARIES AND MUSEUMS

A National Library founded in 1945 contains 30,000 volumes and serves as a public library facility. A National Museum was founded in 1952 in Malé to conserve and display historical items.

#### 45 MEDIA

Interatoll communication is through a network of high-frequency transceivers; within atolls, communication between islands and with boats is by walkie-talkie. A satellite earth station was installed in 1977 to facilitate external communications. In 1999, there were 21,000 mainline phones in use. In 1997, there were 1,290 cellular phones in use as well.

The Voice of Maldives has been transmitting radio broadcasts since 1962 in Divehi and English. Television Maldives is the country’s only TV station. As of 2001 there was one radio station and one television station, both government owned. In 1999, there were 35,000 radios and 10,000 television sets throughout the country. In 2001, there were 6,000 Internet subscribers with access through one service provider.

There are two major daily newspapers, *Aafathis* (2002 circulation 300) and *Haveeru* Daily (circulation 4,500). Both papers are published in Divehi and English. As of 2001, there were about 200 other newspapers and periodicals in circulation.

The Penal Code prohibits speech against Islam or the government, though it is said that journalists are more self-confident than in the past and that self-censorship has abated. There are legal prohibitions on the import of foreign publications.

#### 46 ORGANIZATIONS

Several sport clubs and a Muslim religious organization operate in Malé. The Maldives National Chamber of Commerce and Industry is also in Malé along with the Maldives Traders’ Association. The Maldives National Youth Council was formed in 1984 to assist in organizing national programs for youth. Scouting programs are available for youth as well.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism is the principal industry and leading foreign exchange earner. It has developed rapidly with government support, climbing from 9,000 visitors in 1975 to 196,112 in 1991 and 467,154 in 2000. In 2000, income from tourism reached \$344 million. There were 8,329 hotel rooms and 16,658 bed-places, with an occupancy rate of 68%.

Natural attractions are crystal-clear lagoons and white beaches that are ideal for swimming, fishing, and both snorkeling and scuba diving. Modern, one- and two-story tourist facilities have been built on various otherwise uninhabited islands, mainly in the Malé atoll but also in neighboring atolls. Developed with European, Sri Lankan, and Indian assistance and part ownership, such resorts are confined to these individual islands, thus allowing the conservative Islamic government to profit from the presence of foreign tourists while shielding its citizens from the presence and consumption of alcoholic beverages and other un-Islamic holiday practices of these tourists. Maldivian resort workers maintain their homes and families on other islands, and non-Maldivians—often Sri Lankans—are hired to serve the alcohol. Passports are required of all visitors, as are yellow fever inoculation certificates for those arriving from infected areas.

In 1993, the US Department of State estimated the cost of staying in Maldives at \$198 to \$242 per day. Past UN reports indicate that the cost of staying within the country can be much lower, even as low as about \$30 per day.

#### 48 FAMOUS MALDIVIANS

Ibn Battutah (Muhammad bin ‘Abdallah bin Battutah, b.Tangier, 1304–77), the remarkable Arab traveler and geographer, lived in the Maldives for several years, served as a quadi there, and married the daughter of a Maldivian vizier. Sultan Iskandar Ibrahim I, who reigned for nearly 40 years during the 17th century, had the Hukuru Miskit (the principal mosque on Malé Island) built in 1674. Modern-day leaders include Amir Ibrahim Nasir (b.1926) and Maumoon Abdul Gayoom (b.1937).

#### 49 DEPENDENCIES

Maldives has no territories or colonies.

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# MARSHALL ISLANDS

Republic of the Marshall Islands

**CAPITAL:** Majuro, Majuro Atoll

**FLAG:** The flag, adopted in 1979, is blue, with two diagonal strips of orange over white; in the canton is a white star with 4 large rays and 20 shorter ones.

**ANTHEM:** *Ij iokwe lok aelon eo ao ijo iaar lotak ie (I Love My Island, Where I Was Born).*

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** The government has not legislated official holidays.

**TIME:** 11 PM = noon GMT.

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

The Marshall Islands is located in the central Pacific Ocean, just north of the equator. Isolated from major population centers, Majuro, the capital, lies 3,438 km (2,136 mi) W of Honolulu, 3,701 km (2,300 mi) SE of Tokyo, and 3,241 km (2,014 mi) SE of Saipan, the former trust territory capital. The country consists of 29 atolls and 1,152 islands, 5 of which are major islands, extending over a sea area exceeding 1,942,500 sq km (750,000 sq mi). The main land area is only about 181 sq km (70 sq mi).

Comparatively, the area occupied by the Marshall Islands is slightly larger than Washington, D.C. The atolls and islands form two almost parallel chainlike formations: the Ratak ("Sunrise"), or Eastern, group and the Ralik ("Sunset"), or Western, group. The largest atolls in the Ratak group are Mili, Majuro, Maloelap, Wotje, Likiep, and Bikini; in the Ralik group, Jaluit, Kwajalein, Wotho, and Enewetak. The Marshall Islands have a coastline of 370.4 km (230 mi).

The capital city of the Marshall Islands, Majuro, is located on the island of Majuro.

## <sup>2</sup>TOPOGRAPHY

The majority of islands are in typical atoll formations, consisting of low-lying narrow strips of land enclosing a lagoon. Soils are porous, sandy, and of low fertility. Kwajalein Atoll in the Ralik, or Western, atoll is the largest atoll in the world.

## <sup>3</sup>CLIMATE

The maritime tropical climate is hot and humid, with little seasonal temperature change. Diurnal variations generally range between 21° and 34°C (70° and 93°F). Trade winds from the northeast cool the high temperatures from December through March.

Rainfall averages about 30–38 cm (12–15 in) per month, with October and November the wettest and December to April the driest. Average rainfall increases from the north to the south; the northern atolls average 178 cm (70 in) annually, compared with 432 cm (170 in) in the southern atolls.

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

The flora and fauna of the atolls are limited in number and variety. The flora consists of species resilient to porous soils, salt spray, and relatively strong wind force. The dominant tree species include coconut palms, pandanus, breadfruit, and citrus trees. Fauna include rodents and indigenous strains of pig.

## <sup>5</sup>ENVIRONMENT

Among the Marshall Islands' more significant environmental problems are water pollution due to lack of adequate sanitation facilities, inadequate supplies of drinking water, and the rise of sea levels due to global warming. Any rise in the sea level is a constant and serious threat to an island nation whose land mass is 2–3 meters (6–10 ft) above sea level.

The Marshall Islands Environmental Protection Agency, established in 1984, is concerned with programs for water quality standards, solid waste disposal, earthworks, and use of pesticides. The environments of the Bikini, Enewetak, Rongelap, and Utirik atolls were contaminated by nuclear testing. Nuclear tests were carried out in the region from 1946 to 1958. The long-term environmental effects on these atolls and their populations remained undetermined. The hawksbill turtle and green turtle are on the endangered species list.

## <sup>6</sup>POPULATION

The population of Marshall Islands in 2003 was estimated by the United Nations at 55,000, which placed it as number 185 in population among the 193 nations of the world. In that year approximately 2% of the population was over 65 years of age, with another 49% 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 1.19%, with the projected population for the year 2015 at 60,000. The population density in 2002 was 300 per sq km (777 per sq mi).

It was estimated by the Population Reference Bureau that 72% of the population lived in urban areas in 2001. About 60% of the total population resided on two atolls, Majuro and Ebeye. Of the 34 atolls and major islands, 24 are inhabited. The capital city,

Majuro, had a population of 33,000 in 2002. According to the United Nations, the urban population growth rate for 2000–2005 was 3.4%.

## 7 MIGRATION

Population has been steadily migrating from the outer atolls to the urban concentrations on Majuro and Ebeye. As a result, outer atolls have been left with unbalanced population structures of children, females, and the aged.

Provisions under the Compact of Free Association with the United States permit unrestricted entry into the US and allow high-school graduates to join the US armed forces. In 1999, the net migration rate was zero. In 2000 the total number of migrants was 2,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The Marshallese people are Micronesians, who are physically similar to the Polynesian peoples. The largest non-Marshallese ethnic group is from Kosrae in the Federated States of Micronesia. There are also small numbers of Americans and Filipinos.

## 9 LANGUAGES

English is universally spoken and is the official language. Two major Marshallese dialects are also spoken. Marshallese is a Malayo-Polynesian language and the common source of each of the atolls' dialects. Both English and Marshallese are used in official communications and in commerce. Japanese is also spoken.

## 10 RELIGIONS

The people are almost entirely Christian, primarily Protestant, as a result of the arrival of American and Hawaiian Protestant missionaries in the 1860s. As of a 2002 report, the United Church of Christ is the principal denomination, representing some 55% of the population. The United Church of Christ is the successor of the Congregationalists from New England and Hawaii who converted the islanders in the latter half of the 19th century. Other religious denominations represented include Assemblies of God (26%), Roman Catholics (8%), Bukot Nan Jesus (also called Assembly of God Part Two, 3%), the Church of Jesus Christ of Latter-Day Saints (2%), Seventh Day Adventists (1%), Full Gospel (1%), and the Baha'i Faith (1%). About 1% are Muslims, Jehovah's Witnesses, and members of the Salvation Army.

## 11 TRANSPORTATION

There are 64.5 km (40 mi) of paved road on the Majuro atoll and on the Kwajalein atoll with less than 10% of those roads on Kwajalein in 2002. On the outer islands, roads consist primarily of cleared paths and roads surfaced with stone, coral, or laterite. There are few motor vehicles.

The many scattered atolls separated by long distances make sea and air transportation essential. Domestic sea transportation is provided by interisland ships, which service each of the outer islands about once every three months. Two commercial dock facilities in Majuro and one in Ebeye furnish port facilities for international shipping. In 2001, the merchant fleet consisted of 270 ships with a capacity totaling 11,807,839 GRT.

Also in 2001, the Marshall Islands had 17 airports, only 4 of which had paved runways. Majuro International Airport, completed in 1974, accommodates aircraft up to Boeing 707 size. The government-owned Airline of the Marshall Islands (AMI), established in 1980, provides service to all outer islands with airstrips. International airline connections are provided to Tarawa in Kiribati, Funafuti in Tuvalu, and Nadi in Fiji. Air Micronesia/Continental Airlines links Majuro with major foreign destinations, including Hawaii, Guam, Manila, and Tokyo. In

2001, 18,800 passengers were carried on domestic and international airline flights.

## 12 HISTORY

Sighting of the islands was first recorded by the Spanish navigator Alvaro de Saavedra in 1529. The British captain John Marshall, after whom the islands are named, explored them in 1788. Throughout the late 1800s and early 1900s, foreign powers ruled the islands for such advantages as trade, religious propagation, exploitation of resources, strategic considerations, and maintenance of sea routes. Spain claimed the islands in 1874, but sold them to Germany in 1899. At the outbreak of World War I, Japanese naval squadrons took possession of the Marshalls and began formal administration under a League of Nations mandate in 1920.

In World War II, after bitter fighting between US and Japanese forces that included battles for Kwajalein and Eniwetok (now Enewetak), the islands came under US control. In 1947, the Marshalls became a district of a UN trusteeship, called the Trust Territory of the Pacific Islands, which was administered by the United States.

The United States used Bikini and Enewetak atolls as nuclear testing sites from 1946 to 1958, exploding 66 atomic and nuclear tests during this period. The nuclear testing program resulted in the displacement of the indigenous people due to radiation contamination. The people of Bikini and Enewetak, along with those exposed to radioactive fallout in the 1954 Bravo Blast, fought for compensation from the United States, which in February 1990 agreed to pay \$45 million to the victims of the nuclear testing program. Fifty years after testing began, Bikini Island has begun to attract a few tourists and scientific surveys have declared the island habitable again, although there is still a danger in eating too many of the local coconuts. Despite the scientific assurances, the US government has yet to issue a statement saying that the island is safe to inhabit. Because of the US promise to care for the Islanders until they could return to their home, Bikinians made President Clinton their king and expected him to look after his people. In October 1999, the United States, through the Majuro-based Nuclear Claims Tribunal, paid nearly another \$2.3 million toward the \$45 million originally promised in 1990, bringing the amount paid toward the total to \$39.4 million.

The Marshallese people adopted a constitution in 1978, under which the Marshalls were designated the Republic of the Marshall Islands. In 1979, the constitution went into effect and the republic became a self-governing territory. Amata Kabua was elected the Republic's first president. In 1983, a Compact of Free Association with the United States, providing for full self-government except for defense, was approved by plebiscite. In January 1986, the compact was ratified by the United States, and on 21 October 1986 it went into effect. The UN Security Council voted in December 1990 to terminate the Marshall Islands' status as a UN Trust Territory. The Republic became an independent state and joined the UN in September 1991. The Compact of Free Association with the United States expired in 2001. It is to be replaced with a new arrangement which will guarantee US funding over the next 20 years; the provisions of the compact were subsequently extended though September 2003. While the Compact of Free Association is being negotiated, the level of yearly assistance is \$37 million.

In late 1999 and early 2000, two major political changes took place. For the first time, an opposition party, the newly formed United Democratic Party (UDP), gained a majority in parliament in the November 1999 elections. Then, in January 2000, Kessai Note, the Speaker of the Nitijela, was elected to the presidency, becoming the first president of the Marshall Islands who is a commoner (not a traditional chief).

Also in the late-1990s and into the new millennium, global warming and the possibility of rising sea levels have raised concern over the long-term prospects for the islands in the middle of the Pacific Ocean. The Marshall Islands, along with Kiribati and Tuvalu, rise only a few feet above sea level. The Intergovernmental Panel on Climate Change has suggested that the sea could rise 18 inches by 2100, but that figure could be much lower or higher.

### 13 GOVERNMENT

The Marshall Islands is an independent republic. The constitution effective on 1 May 1979 incorporates a blend of the British and American constitutional concepts. It provides for three main branches of government: the legislature, the executive, and the judiciary.

Legislative power is vested in the Parliament, known as the Nitijela, which consists of 33 members elected from 24 electoral districts, each corresponding roughly to an atoll. The Council of Iroij (Chiefs) has 12 members, whose main functions are to request reconsideration by the Nitijela of any bill affecting customary law, traditional practice, or land tenure, and to express an opinion to the cabinet on any matter of national concern.

Executive power is vested in the cabinet, headed by the president, who is also head of state. The president serves a four-year term. The president, a member of the Nitijela, is elected by a majority of that assembly. The constitution requires the president to nominate not more than 10 or fewer than 6 members of the Nitijela as ministers. All citizens who have attained the age of 18 are eligible to vote.

After the US trusteeship administration of the Marshall Islands came to an end on 21 October 1986, the governments of the United States and the Marshall Islands entered into a Compact of Free Association which provided defense, economic, technical, trade, and other benefits to the Marshall Islands for an initial period of 15 years that expired in 2001. The provisions of the compact were extended to September 2003, until another arrangement guaranteeing US funding is made.

### 14 POLITICAL PARTIES

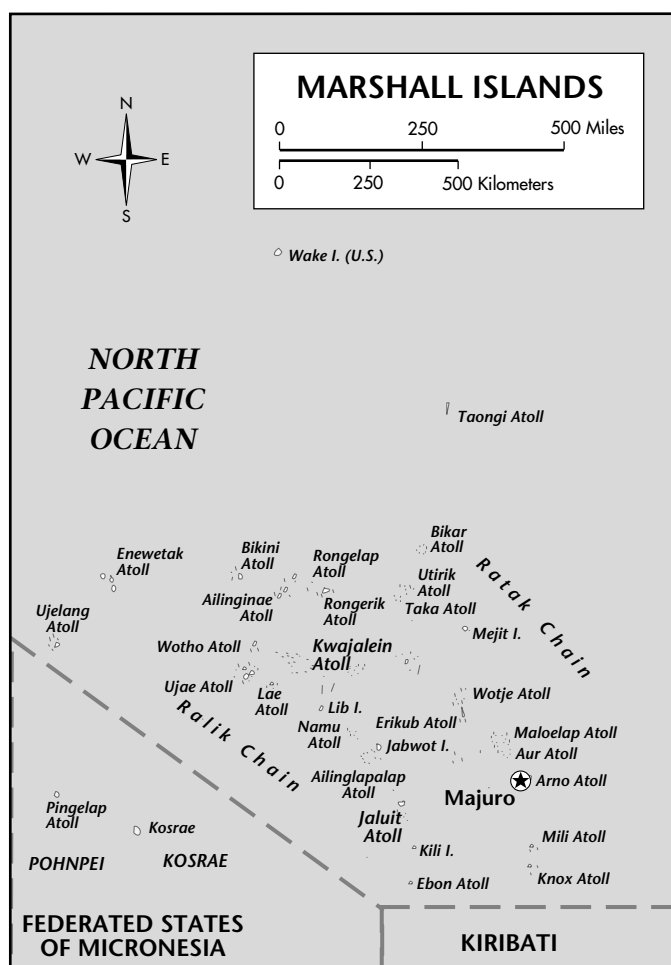
There is no tradition of organized political parties in the Marshall Islands; what has existed more closely resembles factions or interest groups because they do not have party platforms, headquarters, or party structures. However, two major groupings have competed in legislative balloting in recent years. The Kabua Party of former President Amata Kabua was in ascendance from 1979 to 1999. Kabua was re-elected to a fifth term in 1995. When President Kabua died on 12 December 1996, the government named Kunio Lemari, Minister of Transport and Communications, as Acting President. New presidential elections, held on 14 January 1997, were won by Amata Kabua's cousin Imata Kabua. The newly formed United Democratic Party (UDP), led by Litokwa Tomeing, gained a majority in parliament in November 1999, and Kessai Note was elected president.

### 15 LOCAL GOVERNMENT

There are 24 local governments for the inhabited atolls and islands. Typically, each is headed by a mayor, and consists of an elected council, appointed local officials, and a local police force.

### 16 JUDICIAL SYSTEM

The judiciary consists of the supreme court, the high court, the district court, and community courts. The supreme court has final appellate jurisdiction. The high court has trial jurisdiction over almost all cases and appellate jurisdiction over all types of cases tried in subordinate courts. The district court has limited civil and criminal jurisdiction nationwide.



LOCATION: 4° to 14° N; 160° to 173°E.

Community courts in local government areas adjudicate civil and criminal cases within their communities. In 1984, a traditional rights court was established to determine questions relating to titles or land rights and other legal interests involving customary law and traditional practice.

The constitution provides for an independent judiciary. The constitution also provides for the right to a fair trial. It prohibits the arbitrary interference with privacy, family, home, or correspondence. Government authorities respect these provisions in practice.

### 17 ARMED FORCES

There are no armed forces in the Marshall Islands. Under the Compact of Free Association, the United States provides defense for a minimum 15-year period and operation of the Kwajalein Missile Range for 30 years.

### 18 INTERNATIONAL COOPERATION

Until 21 October 1986, the Marshall Islands was administered by the United States under a UN Trusteeship Agreement. The Marshall Islands was admitted to the UN on 17 September 1991, and participates in agencies including UNCTAD, UNESCO, and WHO. In 1992, it became a member of ESCAP. The government continues to support and participate in the activities of regional bodies and has full membership in the SPC. The Marshall Islands has no diplomatic missions overseas, although an office of a



resident representative to the United States was established in 1986.

In 1996 the Marshall Islands joined with 38 other nations to form the Alliance of Small Island States. The Alliance, concerned with global warming and rising sea levels, wants the industrialized nations to reduce greenhouse gas emissions by 20% by 2005.

## 19 ECONOMY

The economy consists of a monetary sector and a nonmonetary subsistence sector. The monetary sector is localized in Majuro and Ebeye and is sustained largely by expenditures of the government and Kwajalein Missile Range employees. In turn the government is heavily dependent on grants from the US government provided, particularly those under the Compact of Free Association, which went into effect in 1986. These grants, averaging ranging from \$40 million/year to \$60 million/year, are given in exchange for furnishing military facilities and comprise roughly 60% to 70% of total government revenues, and 40% to over 50% of total GDP (though individual estimates are subject to statistical deficiencies due to the uncertainties in the collection of data). Copra (dried coconut meat) production provides a source of cash income for outer-atoll families engaged in subsistence activities.

The labor force has increased 160% from 1988 to 1999, to about 28,700, with the percent in industry doubling from 10% to 21%. Among the 21% engaged in agriculture and fishing, the main activities are copra (dried coconut meat) production, and the cultivation of breadfruit, taro, and pandanus. The nascent tourist industry employs less than 10% of the labor force, and efforts to capitalize on beautiful beaches enlivened with WWII relics are hampered by fears of radioactive fallout from the atomic testing done in these remote islands in the 1950s. At least half of the population still suffers from the effects of this fallout. In services, there have been attempts to develop offshore financial and ships registry services taking advantage of the time-space convergences in the computer age. In 1993, the Marshall Islands led all other countries in the passage of legislation decentralizing procedures for ship registry and mortgages so that they could be handled from distant offices, an important advantage for a country whose nearest neighbor, Hawaii, is over 2100 miles away. By April 2001, the Marshall Islands had become the ninth-largest flag of convenience registry in the world in terms of tonnage. However, attempts to offer competitive offshore services have also put the Marshall Islands on virtually every blacklist developed during the 1990s to crack down on tax havens and regulatory avoidance, including the US Financial Action Task Force (FATF) for inadequate safeguards against money laundering and the OECD's blacklist for open registry countries with poor health and safety records.

The islands have few natural resources, and imports exceed exports by factors ranging from 11 to 18, a gap that is also financed by grants from the United States under the Compact Agreement. Negotiations to extend the terms of the agreement with the United States were initiated in 1999, although the long-term goal was to substitute grants under the Compact with returns from a Marshall Island Intergenerational Trust Fund (MIITF). In the meantime, the Compact arrangements were extended through 31 October 2003. Savings for an MIITF were expected to come out of decreased expenditures on debt servicing.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the Marshall Islands' gross domestic product (GDP) was estimated at \$115 million. The per capita GDP was estimated at \$1,600. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 1999 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 14% of GDP, industry 16%, and services 70%. Foreign aid receipts amounted to about \$1,410 per capita and accounted for approximately 64% of the gross national income (GNI).

## 21 LABOR

The labor force numbered 28,698 in 2002. Approximately 58% of the labor force was engaged in the service sector, with 21% in industry and 21% in agriculture. In 1999, the estimated unemployment rate was 31%.

Although the constitution provides for the freedom of association, and the government construes this to include labor organization, as of 2002, no labor unions existed. There is no statutory provision permitting strikes by workers nor is there a right to collectively bargain or organize. Generally wages are set in accordance with the minimum wage regulation and determined in part by market influence.

There is no prohibition against child labor but the law requires compulsory education until the age of 14. In practice this requirement is not effectively enforced, and many children work, especially in the fishing industry. A minimum wage of \$2 per hour was in place by the government in 2002. There are no laws concerning maximum work hours or health and safety in the workplace.

## 22 AGRICULTURE

The traditional interplanting of root crops and other vegetables with coconuts, which maintained self-sufficiency in food and provided the Marshallese with dietetic variety before modern times, is still widely practiced as a subsistence activity. Dried coconut meat, known as copra, is produced on almost all islands and atolls; some 6,500 ha (16,000 acres) of coconut palm were productive. Taro, breadfruit, and pandanus are also grown.

## 23 ANIMAL HUSBANDRY

Livestock on the islands consists of pigs and poultry. Most families raise pigs for subsistence and for family and community feasts. In 1981, pigs were imported from New Zealand to improve the strains of the local breed.

## 24 FISHING

While subsistence fishing for inshore species is carried out from all atolls, there is little domestic commercial fishing in the nation's 1,942,500 sq km (750,000 sq mi) of sea. The total catch in 2000 amounted to 7,960 tons. Principal marine resources include tuna, prawns, shrimp, seaweed, sponges, black pearls, giant clams, trochus, and green mussels. Colorful baby giant clams for ornamental aquariums are grown for export to the US.

A fisheries base with a freezer plant (200 tons capacity) and a chilling plant (50 tons capacity) was constructed in Majuro with Japanese government assistance. In 1986, the Marshall Islands Maritime Authority (MIMA) was reestablished to organize all marine resource activities, including protection, management, and development, under one agency. During the mid-1990s, about 10,500 foreign fishing vessels annually operated in the Marshall Islands' waters, about three-fourths of them Japanese.

## 25 FORESTRY

Some 8,900 ha (22,000 acres) are planted with coconut palm. Replanting has been undertaken on Arno, Lae, Maloelap, Rongelap, Ujae, Wotho, and Wotje. Pine species are under experimentation in a windbreak tree project on Ebeye. In 1984, a sawmill was purchased for processing coconut trunks and other tree species as lumber. In 2000, forest product imports totaled \$1.9 million.

## 26 MINING

There was no mining of mineral resources. However, preliminary surveys have revealed the presence of phosphate and manganese nodules in the seabed within the territorial waters. Lagoon dredging of sand and coral for construction purposes was undertaken in Majuro and Ebeye.

## 27 ENERGY AND POWER

The Marshall Islands is nearly 100% dependent on imported fossil fuels for electric power generation. In 1988, fuel imports amounted to \$3.6 million, or 10% of total imports. In 1995, mineral fuels and lubricants accounted for about 25% of merchandise import expenditures. The urban centers of Majuro and Ebeye have major generating facilities. The Majuro power plant, commissioned in 1982, has an installed power capacity of 14,000 kW. A 5,200 kW power plant was commissioned in Ebeye in 1987. The low power requirements in the outer islands are met by solar-powered systems. However, as of 2003, there were still outer island residents without adequate access to electricity because they were not supplied with solar power. Electricity production was 57 million kWh in 1994.

## 28 INDUSTRY

The economy's small manufacturing sector, localized largely in Majuro, accounts for less than 4% of the gross revenues generated in the private sector. The largest industrial operation is a copra-processing mill under a government and private-sector joint enterprise. (Copra is dried coconut meat.) The rest of the manufacturing sector consists of small-scale and domestic operations, such as coin making, furniture making, handicrafts, and boat making. In 1986, a government-owned dairy factory was established in Majuro, producing liquid milk, ice cream, and yogurt from imported milk powder and butterfat. In 1987, a small tuna cannery began production in Majuro but did not survive the economic downturns of the late 1990s. Manufacturing output increased rapidly in the early 1990s climbing from \$853 million in 1991 to a peak of \$2.7 billion in 1995, a 215% increase. The growth was not sustained, and by 1998, manufacturing output had fallen almost 45% to \$1.48 billion. Coconut oil was again the Marshall Islands' only appreciable manufactured export. At the end of 1999 a tuna loining plant was opened in Majuro, an operation that performed all but the canning of tuna, which was done at a StarKist cannery in American Samoa. By 2000 manufacturing output had climbed to \$1.72 billion. In the period from 1988 and 1999, the percent of the work force engaged in industry more than doubled, from 10% to 21%. The sector is dominated by small-scale, labor-intensive operations, however, and only accounts for 16% of GDP.

## 29 SCIENCE AND TECHNOLOGY

While there are no institutions involved in scientific research or training, the College of Micronesia nursing facility and science center, located in the Majuro Hospital, provides instruction in nursing technology and science.

## 30 DOMESTIC TRADE

Domestic trade accounts for the majority of the total gross trade revenue from urban private enterprises. The modern commercial/retail sectors are located in Majuro and Ebeye and consists mainly of service establishments and imported goods, although increasing amounts of locally produced vegetables and fish are being marketed. Most imports are purchased and consumed at these two main locations. Other islanders are primarily employed in subsistence farming or in production of copra and woven handicrafts. Domestic trade in outer island areas is primarily for basic necessities.

## 31 FOREIGN TRADE

Heavy and increasing trade deficits result from limited exports and dependency on imports for consumer and capital goods. Over 90% of the value of exports is accounted for by fish, coconut oil, and copra cake (made of dried coconut meat). The US, Japan, and Australia are the main export partners, while the US is the primary import source, followed by Japan and the Philippines. The major imports are foodstuffs, machinery and equipment, fuels, beverages, and tobacco.

## 32 BALANCE OF PAYMENTS

The economy suffers from a long-standing imbalance of trade, with imports far exceeding exports. A comprehensive record of international transactions in the form of standardized balance-of-payments accounts was not maintained during the trusteeship period (prior to 1986). The chronic trade deficit is offset by official unrequited transfers, predominantly from the US.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of the Marshall Islands's exports was \$9 million while imports totaled \$54 million resulting in a trade deficit of \$45 million.

## 33 BANKING AND SECURITIES

Financial services are provided by three commercial banks: the Bank of Guam and the Bank of Marshalls, located in Majuro, and the Bank of Hawaii, located in Ebeye. The Marshall Islands Development Loan Office in Majuro was established as an independent government corporation in 1982. There were four credit unions, operated by over 2,000 members.

The Marshall Islands has no stock issues or securities trading.

## 34 INSURANCE

Two foreign insurance companies, located in Majuro, provide coverage. A US insurance company provides loan protection policies to credit unions.

## 35 PUBLIC FINANCE

Government revenues are derived from domestic sources and US grants. Domestic revenues are from taxes and nontax sources (fishing rights, philatelic sales, and user charges). The leading areas of expenditure include health services, education, public works, and transportation and communication.

The US Central Intelligence Agency (CIA) estimates that in 1999 the Marshall Islands' central government took in revenues of approximately \$42 million and had expenditures of \$40 million. Overall, the government registered a surplus of approximately \$2 million. External debt totaled \$86.5 million.

## 36 TAXATION

Income tax is applied to wages and salaries at graduated rates. Business tax is applied to gross revenues of service-related enterprises generated anywhere in the Marshall Islands, the Federated States of Micronesia, and Palau, except on Kwajalein. A sales tax is applied only in Kwajalein. There is also a fuel tax.

## 37 CUSTOMS AND DUTIES

Import taxes are generally ad valorem; duties range from 5% to 75%. The average rate is 10%. Specific duties apply to cigarettes, soft drinks, beer, spirits, wine, gasoline, and other gases and fuels.

## 38 FOREIGN INVESTMENT

The government favors joint ventures with foreign private investors but efforts to attract foreign investment and develop new export products have been largely unsuccessful. The IMF has urged the reduction in the minimum wage and the reserved list for small scale investment as means to secure more foreign direct investment. Foreigners may lease but not own land. The US

department of defense operates a missile testing range on behalf of the strategic defense command in Kwajalein.

### 39 ECONOMIC DEVELOPMENT

The first five-year national development plan (1985–89), which was rephased to 1986/87–1990/91 to meet the requirements of the Compact of Free Association with the United States, constituted the first phase of a 15-year development program. The plan focused on economic development, with emphasis on private-sector expansion, personnel development and employment creation, regional development, population planning and social development, and cultural and environmental preservation. Total funding across the 15 year span of the agreement was envisioned at about to \$1 billion, or about \$65 million dollars per year in financial aid from the United States. Aid was gradually decreased across the 15 year period, and a down-step in 1996 caused a budget deficit that the government filled with debt financing. Paying off the bond obligations kept government expenditures and investment strapped until they were paid off in 2001. By that time, the size of the government had been significantly reduced. Compared to 1994/95, 2002 expenditures were 25% less in current dollar terms. Also, US aid had dropped to an estimated \$39 million. Under Title 11 of the Compact of Free Association, funding was scheduled to expire in 2001, with provision of a two year extension equal to the average level of assistance over the last 15 years. This increased US grant aid to almost \$60 million for 2001, above the average of \$45.33 million for 1997 to 2001.

Tourism was under development in the late 1990s with the opening of a first-calls resort hotel, the first in the Marshall Islands.

In 2001 the government paid off all commercial debt but usable fiscal resources remained short because of a need to set aside about \$30 million in 2001 and 2002 for the initial capitalization of the Marshall Islands Intergenerational Trust Fund (MIITF). The MIITF is the government's long-term solution to the island's public finance needs, but is not projected to provide substantial yearly dividends until at least 2024. In the meantime, the government renegotiated the terms of Title II of the Compact. In an agreement signed 23 April 2002 to go into effect in 2004, US aid is extended for 20 years, to 2024, with a base grant of \$37 million. The base grant is to be reduced by \$500,000 each year with the decrement to be deposited in the MIITF, which is also to receive an initial \$8 million contribution from the United States. Inflation indexation was set with a cap of 5%, down from 7% under the old agreement. It also agreed to establish a RMI-US Joint Economic Review Board (JERB) to monitor and oversee the spending of the grant money. The priority targets set for spending are education, health, and infrastructure. The agreement requires amendment to the Compact of Free Association, which requires passage by both houses of the US Congress.

Another agreement reached in April 2003 was a 50-year extension of the US lease of land on the Kwajalein atoll as a defense site, with an option to extend an additional 20 years. As the current lease expires in 2016, this means an extension to 2066. In calculating its assistance to the Marshall Islands, the US includes not only the \$13 million a year paid for the Kwajalein lease under the Military Use and Operating Rights Agreement (MUORA) but also an estimated \$21 million in tax dollars that are infused through salaries, tax payments and telecom services, plus an estimated \$10 million worth of federal programs, like the postal service. The RMI government expressed concerns that the assistance is insufficient to prevent economic stagnation, and social and infrastructure deterioration and/or prevent recourse to debt financing to fill revenue shortfalls.

### 40 SOCIAL DEVELOPMENT

Private-sector provision of community and social services is mainly through the Marshalls Community Action Agency, a nonprofit organization. Among government agencies, the Ministry of Social Services is involved in five major areas: housing, women's and youth development, feeding programs, aging, and other community development welfare programs. Funding of these services is provided almost entirely by the US. A social security system provides old age, disability, and survivor benefits, paid for by employers and employees. The program is funded by 5% contributions from both employers and employees. Retirement is set at age 55.

The Marshallese society retains a traditional matrilineal structure. Each person belongs to the bwij, or clan, of his or her mother, and has the right to use the land and other property of the bwij. The head of the bwif is called an alap. The alap is the spokesperson between the clan members and the members of the iroj, or royal clan. Inheritance of traditional rank and of property is matrilineal, and women occupy important positions within the traditional social system. However, within the economic system, many hold low-paid dead-end jobs. Spousal abuse is common, usually in conjunction with alcohol use. No overt instances of sex discrimination have been reported. The government is committed to protecting and promoting the rights of children.

The government fully respects the human rights of its citizens. No human rights organizations exist, but there are no legal restrictions against their formation.

### 41 HEALTH

There are two hospitals: the Armer Ishoda Hospital in Majuro, with an 81-bed capacity, and a recently renovated hospital in Ebeye. Both hospitals provide dental services. In 1991, there were 20 doctors, 130 nurses, and 4 midwives.

Rudimentary health care on the outer atolls is provided through 69 dispensaries staffed by health assistants. Emergency cases are sent to the Majuro or Ebeye hospital and, when necessary, to hospitals in Honolulu. Dental services to the outer atolls are provided by periodic visits by dental teams from Majuro and Ebeye.

Once the site for nuclear testing, the Marshall Islands government has once again considered testing on the uninhabitable islands of Bikini and Enewetak. As of 1996, radioactive dose assessments have been commissioned by the Republic of the Marshall Islands.

Infant mortality was an estimated 38.68 per 1,000 live births as of 2002. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 44.98 and 6.1 per 1,000 people. Life expectancy was 66.18 years. Immunization rates were as follows in 1994: diphtheria, tetanus, and pertussis, 67%; measles, 59%; polio, 62%; and tuberculosis, 96%. The prevalence of anemia in children under five years of age was 43% in 1990. No polio, measles, or neonatal tetanus cases were reported in 1994. Alcoholism and drug abuse are common and there is a relatively high incidence of sexually transmitted diseases. There were two new cases of AIDS reported in 1996.

### 42 HOUSING

Houses in the urban centers are simple wooden or cement-block structures, with corrugated iron roofs; because of the limited land availability, houses are heavily crowded. In the outer atolls houses are constructed of local materials, with thatched sloping roofs and sides of plaited palm fronds.

The Ministry of Social Services provides housing grants, principally to low-income families, through a low-cost housing program and a grant-in-aid program. Government housing is administered by the Public Service Commission.

In 1999, there were about 6,478 households with an average of 7.8 people per household. About 70% of households relied on rain water as a primary water source, 39% of households had indoor flush toilets, and 63% had access to electricity for lighting and/or cooking.

### 43 EDUCATION

The Ministry of Education provides for public education at the elementary, secondary, and higher education levels. Public elementary schools provide eight years of compulsory education to students ages 6–14. A high school entrance examination is given to all eighth graders in order to determine the 300 or so students who will be admitted into the two public high schools each year. During the 1994–95 school year, a combined total of 15,755 students were enrolled in the Marshall Islands' 115 public and non-public primary and secondary schools. Fifty-one percent of all students were male, and 49% were female. The public schools employed a total of 512 teachers while non-public institutions employed 297 teachers. The pupil-teacher ratio at the primary level was estimated at 15 to 1 in 1999. For students who are admitted to high school, a comprehensive four-year program of secondary education provides instruction in general studies, college preparatory courses, and vocational training.

Higher education is provided through formal programs of teacher training and the provision of grants for university training abroad. In 1986, approximately 160 students received financial assistance for foreign training. The Majuro campus of the College of Micronesia opened its School of Nursing and Science Center in 1986. In 1991, the Marshall Islands campus separated from the College of Micronesia system and became accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association for Schools and Colleges (WASC). On 1 April 1993, the College of the Marshall Islands was established as an independent institution with its own Board of Regents. In 1994–95, approximately 1,149 students were enrolled at the college, with 42 teaching staff members.

### 44 LIBRARIES AND MUSEUMS

The College of Marshall Islands Library has 7,000 volumes, while the High Court Library holds 50,000. In Majuro, the Alele Museum, which also houses a library, was completed in 1973. Alele Museum showcases both the traditional and colonial history of the Marshalls. The library houses historical documents and photographs from the trust territory archives. More than 2,000 glass-plate negatives taken between 1890 and 1930 are on loan to the museum. Alele's newest attraction is the elaborate shell collection from Mili Atoll.

### 45 MEDIA

The inter-island communications network consists of shortwave outer-island radio stations, which link all major islands and atolls. In 2001, there were 4,186 mainline telephones in use and 489 cellular phones.

The island of Ebeye is linked to Majuro by radio and also by satellite. As of 2001, there were two radio stations. The government radio station, which has advertising, relays world news from Voice of America and Radio Australia. The other station is religious. In 1997 there were an estimated 2,000 telephones on all islands. In 2002 there were two U.S. military television stations and one government-owned station. In 2001, there were only 537 Internet subscribers served by one service provider.

There are no daily newspapers. A weekly newspaper, *The Marshall Islands Journal* (2002 circulation 3,700), is published in Majuro in English and Marshallese. *The Marshall Island Gazette*, established in 1982, is a free four-page government newsletter, printed in English.

The constitution provides for free expression, and the government is said to respect these provisions in practice.

### 46 ORGANIZATIONS

A number of consumers' cooperatives are in operation. The Chamber of Commerce is located on Majuro.

Marshallese society is matrilineal and organized on the basis of the clan (*bwij*). The head of the clan (*alap*) serves as spokesman between clan members and members of the royal clan. At the community level there are youth organizations, including Boy Scouts and Girl Scouts, women's organizations, and various religiously affiliated social organizations. A national women's organization began in 1986. The Red Cross is also active.

### 47 TOURISM, TRAVEL, AND RECREATION

Tourist attractions include the sandy beaches on the atolls, protected lagoons, underwater coral reefs, and abundant marine life, including large gamefish. The outer atolls of Mili, Maloelap, Wotje, and Jaluit offer many Japanese and American relics from World War II. However, tourism remains undeveloped, and the outer atolls do not have any accommodations for visitors.

In 2000 there were 5,246 tourist arrivals and tourism receipts totaled \$4 million. That year there were 305 hotel rooms and a total of 665 bed-places.

In 2001, the US Department of State estimated the cost of staying in Majuro at \$175 per day.

### 48 FAMOUS MARSHALLESE

Amata Kabua (1928–96), president from 1979 until his death, was founder and leader of the Political Movement for the Marshall Islands Separation from Micronesia in 1972. He previously served as a member of the Congress of Micronesia and guided his country to self-governing status under the US-administered UN trusteeship. He was a graduate of the Mauna Olu college in Hawaii and taught secondary school before starting his political career.

### 49 DEPENDENCIES

The Marshall Islands have no territories or colonies.

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# MICRONESIA, FEDERATED STATES OF

Federated States of Micronesia

**CAPITAL:** Palikir, Pohnpei Island

**FLAG:** Adopted in 1978, the flag is light blue, bearing four five-pointed stars arranged in a diamond in the center.

**ANTHEM:** *Patriots of Micronesia*

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** New Year's Day, 1 January; Federated States of Micronesia Day, 10 May; Independence Day, 3 November; Christmas Day, 25 December.

**TIME:** In Pohnpei and Kosrae, 10 PM = noon GMT; in Yap and Truk, 9 PM = noon GMT.

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

The Federated States of Micronesia (FSM) is located in the western Pacific Ocean within the Carolinian archipelago. The four states consist of 607 islands with a total area of 7,866 sq km (3,037 sq mi), comprising 702 sq km (271 sq mi) of land, and 7,164 sq km (2,766 sq mi) of lagoons. Comparatively, the area occupied by the Federated States of Micronesia is slightly less than four times the size of Washington, D.C. Kosrae, the smallest and easternmost state, consists of five closely situated islands. Pohnpei consists of the single large island of Pohnpei and 25 smaller islands within a barrier reef, in addition to 137 outer islands, of which the major atolls are Mokil, Pingelap, Kapingamarangi, Nukjuoro, and Ngatik. Truk includes the large Truk lagoon, enclosing 98 islands, and major outer island groups, including the Mortlocks, Halls, Western, and Namwunweito islands. Yap, the westernmost state, consists of 4 large islands and 7 smaller islands surrounded by barrier reefs, in addition to 134 outer islands, of which the largest groups are Ulithi and Woleai. The cumulative coastline distance is 6,112 km (3,798 mi).

The capital city of the Federated States of Micronesia, Palikir, is located on the island of Pohnpei.

## <sup>2</sup>TOPOGRAPHY

The 607 islands constituting the four states include large, mountainous islands of volcanic origin and coral atolls. Kosrae is largely mountainous, with two peaks, Fenkol (634 m/2,080 ft) and Matanti (583 m/1,913 ft). Pohnpei contains a large volcanic island, with the highest elevation that of Mt. Totolom (791 m/2,595 ft). Truk contains 14 islands that are mountainous and of volcanic origin. Yap contains four large high islands, with the peak elevation that of Mt. Tabiwol (178 m/584 ft). The outer islands of all states are mostly coral atolls.

## <sup>3</sup>CLIMATE

The climate is maritime tropical, with little seasonal or diurnal variation in temperature, which averages 27°C (80°F). The islands are subject to typhoons. The short and torrential nature of the

rainfall, which decreases from east to west, results in an annual average of 508 cm (200 in) in Pohnpei and 305 cm (120 in) in Yap.

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

There is moderately heavy tropical vegetation, with tree species including tropical hardwoods on the slopes of the higher volcanic islands and coconut palms on the coral atolls. The only native land mammal is the tropical bat. A rich marine fauna inhabits the open sea, reefs, lagoons, and shore areas.

## <sup>5</sup>ENVIRONMENT

Solid waste disposal in urban areas is a continuing problem and the land is threatened by toxic pollutants from mining operations. Micronesia's water supply is also threatened by industrial and agricultural pollutants. Population increases in urban areas, untreated sewage, and contaminants from industrialized countries in the region add to the problem of water pollution.

United Nations research shows that global warming and the rise of sea levels are a threat to Micronesia's forests, agricultural areas, and fresh-water supply. Pollution from industrial and agricultural sources also threatens the nation's mangrove areas. The fish population is endangered by waterborne toxins and explosives used in commercial fishing. The country also has a problem with the degeneration of its reefs due to tourism. In 1984, the government established an FSM Environmental Protection Board.

Threatened species include the chuuk flying-fox, the chuuk monarch, and the Mortlock Islands flying-fox. The Kosrae crane and the Kosrae mountain starling have become extinct.

## <sup>6</sup>POPULATION

The population of Micronesia in 2003 was estimated by the United Nations at 136,000, which placed it as number 176 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 44% of the population under 15 years of age. There were 102 males for every 100 females in the country in 2003.

According to the UN, the annual population growth rate for 2000–2005 is 0.81%, with the projected population for the year 2015 at 119,000. The population density in 2002 was 154 per sq km (400 per sq mi). The majority of the population live in the coastal areas of the high islands, leaving the mountainous interiors largely uninhabited.

It was estimated by the Population Reference Bureau that 28% of the population lived in urban areas in 2001. The capital city, Palikir, had a population of 9,000 in that year. Population estimates for other large urban areas include 7,200 in Kosrae, 33,100 in Pohnpei, 53,700 in Truk, and 13,900 in Yap. According to the United Nations, the urban population growth rate for 2000–2005 was 3.3%.

## 7 MIGRATION

No significant permanent emigration has occurred; most emigration has been undertaken temporarily for higher education. In 1999, the net migration rate was 11.65 migrants per 1,000 population. The total number of migrants in 2000 was 3,000.

## 8 ETHNIC GROUPS

The islanders are classified as Micronesians of Malayo-Mongoloid origins. The people of the Nukuoro and Kapingamarangi atolls in southwestern Pohnpei are of Polynesian descent. In total, there are nine ethnic Micronesian and Polynesian groups.

## 9 LANGUAGES

English is the official language and is taught in the schools. The indigenous languages are of the Malayo-Polynesian family. Yapese, Ulithian, Woleaian, Trukese, Pohnpeian, and Kosraean are classed as Malaysian. Kapingamarangi and Nukuoro, spoken on two isolated atolls of the same names in Pohnpei, are Polynesian languages.

## 10 RELIGIONS

Roman Catholicism and Protestantism have been widely accepted throughout the country following their introduction by missionaries in the 1880s. Protestantism is predominant in Kosrae. The largest denominations are the United Church of Christ, Baptists, Seventh Day Adventists, Mormons, and the Baha'i Faith. Roman Catholics are dominant on Chuuk and Yap. There is a small Buddhist community of Pohnpei.

## 11 TRANSPORTATION

As of 2002, there were 240 km (149 mi) of roadways on the major islands, of which 42 km (26 mi) are paved. Over 90% of all vehicles are located on the main islands of Pohnpei, Moen (in Truk), Kosrae, and Yap. The state of Yap provides public bus transportation, primarily used by students. International shipping services are provided by 8 companies, some of them Japanese. There are commercial harbor facilities at Kolonia, Moen, Okat, and Colonia. The Federated States of Micronesia have no merchant marine, but inter-island shipping service is provided by 6 government-owned vessels. In 2001, there were 7 airports, 6 of which had paved runways. International and interstate scheduled airline services are provided by Continental/Air Micronesia, Air Nauru, and Pacific Missionary Aviation.

## 12 HISTORY

The Carolinian archipelago was sighted by European navigators in the 16th century. In 1686 the Spanish captain Francisco Lezcano named Yap Island "La Carolina" after King Charles II of Spain; the name was later generalized to the islands as a whole. Until the end of the 19th century, the islands were under Spanish colonial administration. In 1899 following the Spanish-American War, Spain sold the islands to Germany. Japanese administration

commenced at the end of World War I, and in 1947, following World War II, the four states of the FSM came under US administration as part of the UN Trust Territory of the Pacific Islands. Beginning in the 1960s, the people of Micronesia began making clear their desire for political independence. The United States, ever interested in maintaining good relations with the strategically significant Pacific islands, gave in to such demands and helped Micronesia to form a consultative body called the Congress of Micronesia in 1967. The congress declared the area sovereign in 1970. The history of the FSM as a political entity began on 12 July 1978, when a constitution drafted by a popularly elected constitutional convention was adopted; it went into effect on 10 May 1979. The government of the FSM and the government of the United States executed a Compact of Free Association in October 1982; in November 1986, that compact went into effect. Under the Compact of Free Association, the United States is responsible for defence and security issues. The UN Security Council voted in December 1990 to terminate the FSM's status as a UN Trust Territory. A new capital was built about 10 km southwest of Kolonia in the Palikir Valley; it has served the FSM since 1990.

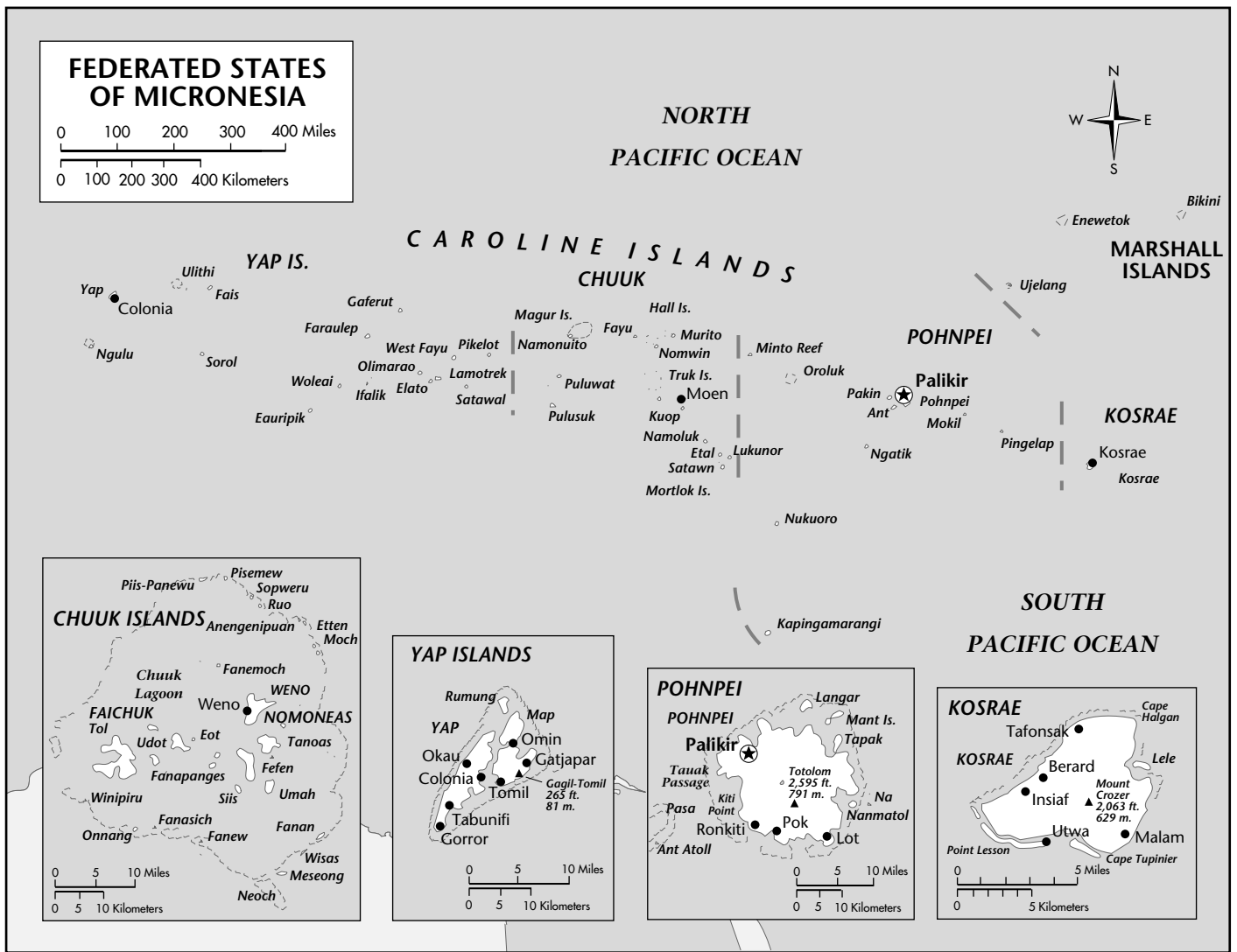
The FSM became an independent state and joined the UN in September 1991. John R. Haglegam of Yap was elected FSM's president in 1987. In May 1991 Bailey Olter of Pohnpei defeated Haglegam and was elected president. On 11 May 1995 Bailey Olter was reelected to a second term as president and Jacob Nena was reelected to a second term as vice-president. On 18 July 1996 Olter suffered a stroke and underwent treatment in Texas. Nena served as acting president while Olter was incapacitated. When Olter was unable to resume his duties, Nena became the FSM's fourth president on 8 May 1997. In a new election Leo A. Falcam, of Pohnpei, was elected vice president. In the May 1999 elections Falcam was elected president and Redley Killion, of Chuuk, was elected vice president.

The Compact of Free Association between the FSM and the United States expired in 2001. Negotiations to replace the compact started in 1999 and were extended for a further two years. Under a new agreement, to be signed in 2003, ongoing grant assistance would be provided for a period of 20 years. Prior to beginning negotiations and before any other assistance was considered, the United States requested a full accounting of the approximately \$3 billion in US funding provided to FSM since 1986. During further discussions of the Compact in 2000 the United States suggested that restrictions on Micronesian immigration may be tied to future funding.

Also in the late-1990s and into the new millennium, global warming and the possibility of rising sea levels have raised concern over the long-term prospects for the islands in the middle of the Pacific Ocean. The Intergovernmental Panel on Climate Change has suggested that the sea could rise 18 inches by 2100, but that figure could be much lower or higher. For countries that rise a short distance above sea level, their existence may be threatened.

## 13 GOVERNMENT

The national executive branch includes the president and vice president, elected by the congress from its membership, who serve a four-year term and may not be from the same state. The principal officers of the executive branch are appointed by the president, with the advice and consent of congress. The judiciary consists of a supreme court that applies criminal and civil laws and procedures closely paralleling those of the United States. The legislature consists of a unicameral congress of fourteen senators. Of the senators, four are elected at large on the basis of state equality and ten on the basis of population apportionment, with five from Truk, three from Pohnpei, and one each from Yap and Kosrae. The four at-large senators serve four-year terms and the remaining senators serve two-year terms. Congressional elections



LOCATION: 0° to 14° N; 135° to 166° E.

were held in four states (Chuuk, Kosrae, Pohnpei, and Yap) to fill 14 seats in March 1999. The next elections for the legislature will be held in March 2003; elections for president will be held in May.

#### 14 POLITICAL PARTIES

There are no formal political parties.

#### 15 LOCAL GOVERNMENT

The state executive branch consists of state governors and lieutenant-governors, popularly elected for four-year terms. The state legislative branch consists of members popularly elected on the basis of proportional representation, numbering twenty in Pohnpei, thirty in Truk, thirteen in Kosrae, and nine in Yap. Municipalities are districts composed of a number of small communities (sections), some of which may be located in different islands.

Municipal government is considered by many to be the most important level of government in Micronesia. The leaders of local bodies are generally tribal chiefs, who are considered to be more important figures than nationally elected politicians by a sizable body of Micronesians. The Council of Chiefs can veto any legislation it considers detrimental to traditional ways.

#### 16 JUDICIAL SYSTEM

The national judiciary consists of a Supreme Court, headed by a chief justice, and such subordinate courts as are established by statute. Justices are appointed by the president, with the advice and consent of Congress, and serve for life. The Supreme Court has both trial and appellate divisions. It may review cases heard in state or local courts if they require interpretation of the constitution, national law, or treaties, and it may hear appeals from the highest state court where permitted by a state's constitution.

State and municipal court systems have been established in each of the states. State courts have jurisdiction over all matters not within the exclusive jurisdiction of the national courts. Municipal courts have jurisdiction over civil and criminal matters arising within their municipalities.

The Micronesian constitution and judicial system are modeled after those of the United States. The civil and criminal laws also parallel those of the United States.

The constitution provides for an independent judiciary and the government respects this provision in practice.

#### 17 ARMED FORCES

The Federated States of Micronesia maintains no armed forces. External security is the responsibility of the United States.

## 18 INTERNATIONAL COOPERATION

The FSM participates in such regional organizations as the South Pacific Commission (SPC), and South Pacific Forum. In 1992, the FSM became a member of ESCAP. It also participates in the activities of other UN agencies, including IMF, UNCTAD, and WHO. In 1999, FSM signed the constitution of the United Nations Educational, Scientific and Cultural Organization (UNESCO) to become the 188th member of that agency. The government maintains overseas offices in Washington, D.C., Tokyo, Honolulu, and Guam.

## 19 ECONOMY

Other than US payments, the Micronesian economy is markedly underdeveloped. A clothing plant in Yap employs 500 workers in the country's largest private-sector industrial enterprise. The subsistence economy is thought to generate about 25% of GDP, but statistics from the government are incomplete and unreliable.

In 1993, the United States, whose aid constitutes a large share of GDP, enlisted the Asian Development Bank in a plan to devise and implement an economic development scheme for the country. In 1995, an economic summit was convened to discuss some solutions. Privatization was high on the list of recommendations and Yap has already initiated a plan to reduce government employment by 37%. The ADB-led summit also recommended resources be spent in the development of fisheries and tourism, two sectors with substantial potential. In recent years, licensing fees paid by foreign fisherman for tuna fishing in Micronesia's Exclusive Economic Zone have provided between \$18–24 million annually.

The Second National Development Plan, for the years 1992–96, featured as its primary objective decreasing dependence on aid and, at the same time, making better use of its aid. Little has been done, however. It is estimated that after US-led grants end in 2002, per-capita GDP could drop to below \$500.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Micronesia's gross domestic product (GDP) was estimated at \$269 million. The per capita GDP was estimated at \$2,000. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2001 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. It was estimated that agriculture accounted for 50% of GDP, industry 4%, and services 46%. Foreign aid receipts amounted to about \$1,440 per capita and accounted for approximately 52% of the gross national income (GNI).

## 21 LABOR

The national labor force was estimated at about 23,190 in 1994. Two-thirds of the labor force in 2002 were government employees. In 1999 the unemployment rate stood at 16%. While unemployment remains high, the economy faces shortages of skilled personnel since over 44% of the population is under 16 years of age.

The law provides the right to form or join unions, and government employees are granted the right to form associations to proffer their views. However, no such associations have been formed as of 2002. The country is not affiliated with the International Labour Organization (ILO).

While labor laws are applied mostly without variance in all four states, the minimum wage varies from state to state. Minimums for government-employed workers in 2002 ranged from \$0.80 per hour for Yap to \$2.00 per hour in Pohnpei. Only Pohnpei had a minimum wage for private sector workers. In 1999, it stood at \$1.35 an hour. There is no minimum working

age for children and many children assist their families in subsistence farming activities.

## 22 AGRICULTURE

Agricultural production has traditionally been for subsistence and is based on a system of shifting cultivation in the high islands. Staple crops include taros, sweet potatoes, bananas, cassavas, and breadfruit. Yams are grown on Pohnpei, Kosrae, Yap, and Fais islands. Other vegetables, such as cucumbers, eggplant, head cabbage, Chinese cabbage, bell peppers, green onions, and tomatoes, are also produced. Other fruits include mangoes, papayas, pandanus, pineapples, lemons, and limes, with oranges and tangerines also produced on Kosrae. The ubiquitous coconut palm is used for a wide range of subsistence purposes, and copra is the main cash crop and the nation's leading export. Crop production in 1999 included (in thousands of tons): coconuts, 140; copra, 18; cassava, 12; and bananas, 2. Black and white peppers were introduced to Micronesia in 1938, but pepper growing only began in Pohnpei (the FSM's most important pepper-producing island) in 1960. Rich volcanic soil and heavy rainfall make gourmet Pohnpei peppers highly regarded.

## 23 ANIMAL HUSBANDRY

Livestock in 2001 included some 14,000 head of cattle, 32,000 pigs, and 4,000 goats. Pigs, traditionally kept by many households for ceremonial purposes, are being upgraded through the introduction of improved strains. Two pig farms operate on Pohnpei. The largest cattle herd is on Pohnpei Island. Eggs are produced commercially, and limited success has been achieved by commercial poultry chicken projects in the states of Pohnpei and Chuuk. Chickens are kept by many households. Goat projects are also operating in Kosrae and Chuuk. A few head of water buffalo are privately raised on Pohnpei and on Pata in Chuuk. In the mid-1990s, the government started encouraging domestic feed production in order to decrease the reliance on imported feed meal.

## 24 FISHING

Inshore marine resources of the reefs and lagoons are harvested mainly for subsistence. The FSM's exclusive economic zone covers some 2.6 million sq. km (1 million sq. mi) of ocean which contain the world's most productive tuna fishing grounds. Although the FSM now has sole ownership of tuna stocks capable of a sustained yield of well over 100,000 tons per year, there is virtually no national participation in its exploitation. The total catch in 2000 was 27,974 tons, including 19,192 tons of skipjack tuna, 6,384 tons of yellowfin tuna, and 1,043 tons of bigeye tuna. The tuna catch is valued at about \$200 million annually. The Micronesian Maritime Authority and the National Fisheries Corporation assist in the development and promotion of commercial fisheries. Pohnpei and Kosrae have embarked on the construction of cold storage and tuna processing plants, and the Yap Fishing Corporation began upgrading its fleet. Total fisheries exports were valued at \$620,000 in 2000.

## 25 FORESTRY

The nation has abundant forestry resources, particularly on the high islands, consisting of approximately 15,000 ha (37,000 acres) of forests. Two privately owned commercial sawmills are operated on Pohnpei; one in Kitti logging mangrove cedar, and one in Kolonia utilizing upland timber. Exploitation of the nation's forestry resources is limited, and virtually all lumber used in construction is imported (\$2.1 million in 2000). Mangrove timber is used for handicrafts and furniture making.

## 26 MINING

There were deposits of phosphates on Fais Island in Yap and bauxite in Pohnpei, Truk, and Yap, but there was no commercial



exploitation. Clays, coral, sand, rock aggregate, and quarry stone works supplied construction materials.

## 27 ENERGY AND POWER

The nation is dependent on imported petroleum, which supplies about 80% of the total energy requirements. Fuel wood for household use provides most of the remainder. Diesel fuel, which accounts for over two-thirds of petroleum imports, is used primarily for electrical generation and ship services. Electricity is generated by government power stations located in each state center. About one-half of the electricity produced is used by the government. Small quantities of electricity are produced in outer island communities.

## 28 INDUSTRY

Manufacturing activity is nearly non-existent and accounts for only a fraction of a percent of GDP. Cottage industries involving handicrafts and small-scale processing are carried out in all states and constitute an important source of income for those not integrated into the monetary economy. In Truk, a small industries center, a garment factory, a coconut-processing plant, a boat-building plant, and a breadfruit flour plant are in operation; in Pohnpei, a coconut processing and soap and oil plant, a feedmill, an ice production plant, a brick-manufacturing plant; in Yap, a cottage industries program; and in Kosrae, a small industries center and a wood-processing plant. In late 1999, a tuna processing plant opened in Majuro.

## 29 SCIENCE AND TECHNOLOGY

There are no institutions for advanced instruction or research and development in science and technology.

## 30 DOMESTIC TRADE

Domestic commercial activity is dominated by wholesale and retail trade, which is highly localized in the four state centers of Kolonia, Tofol, Moen, and Colonia. Nearly half of the population is employed in subsistence farming and fishing. The country relies heavily on imports of food and manufactured goods.

## 31 FOREIGN TRADE

The FSM sustains a severe trade deficit. Exports include agricultural products (coconuts, bananas, betel nuts, cassava, and sweet potatoes), pigs, chickens, and re-exports of fish. Copra, formerly the country's largest export crop, suffered a severe decline in the late 1990s. Major export partners are Japan, the US, and Guam; major import partners are the US, Japan, and Australia.

## 32 BALANCE OF PAYMENTS

Foreign receipts are predominantly grants and rental payments from the United States and aid from other sources. Economic aid totaled \$77.4 million in 1995.

The US Central Intelligence Agency (CIA) reports that the purchasing power parity of Micronesia's exports was \$22 million while imports totaled \$149 million resulting in a trade deficit of \$127 million.

## 33 BANKING AND SECURITIES

Commercial banking operations are regulated by the FSM Banking Board. There are two foreign commercial banks: the Bank of Hawaii, with branches in Pohnpei, Yap and Kosrae; and the Bank of Guam, with branches in Pohnpei and Truk. There is also a domestic Bank of the FSM that operates branches throughout the islands. The FSM Development Bank commenced operations in 1982. It provides loans for projects that meet criteria based on the government's development priorities and is authorized to provide loan guarantees to other financial

institutions in the FSM. However, it can only make loans of up to \$200,000 because of capital limitations. The FSM Employees Credit Union was chartered in 1986. Tradable securities are not issued by the FSM government, state governments, or enterprises residing in the FSM. The currency is the US dollar.

In 1996, national and state governments considered measures designed to cope with the winding down of US funding under the Compact of Free Association (payments scheduled to end in 2001). The restructuring of national government is now underway, with the aim of reducing the number of employees and departments. The government is also seeking to improve basic infrastructure through private-sector investment; infrastructure improvements should in turn encourage growth of the private sector. In 1999, the FSM Trust Fund was established to foster financial independence. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$21.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$115.3 million.

## 34 INSURANCE

The Public Service System administers life insurance and workers' compensation programs. In 1984, a government-employee group health insurance program was instituted, and in 1987, a retirement pension program—for both state and national government employees—was initiated.

## 35 PUBLIC FINANCE

The state and national governments had a series of surpluses in the late 1980s, followed by years of deficits in the early 1990s. Government revenues remained nearly constant during the 1990s, while spending was unrestrained. By the late 1990s, the deficits had come under control.

The US Central Intelligence Agency (CIA) estimates that in 1998 Micronesia's central government took in revenues of approximately \$161 million and had expenditures of \$160 million. Overall, the government registered a surplus of approximately \$1 million. External debt totaled \$66.5 million.

## 36 TAXATION

National taxes on wages and salaries are levied, as well as a business gross receipts tax. The states are constitutionally limited in the types of taxes they may impose; they may levy sales taxes on alcoholic beverages, soft drinks, and cigarettes. The municipal governments usually levy head taxes and boat license and business license fees.

An important tax revenue service is from the sale of tuna fishing rights, which rose from \$12.7 million in 1990 to \$18.2 million in 1994. In 1999, FSM, Palau, and the Republic of Marshall Islands agreed to cooperate in policing illegal fishing in the region.

## 37 CUSTOMS AND DUTIES

As of 1988, specific duties were levied on cigarettes, beer and malt beverages, wine, distilled alcohol, and gasoline and diesel fuel. Ad valorem duties were levied as follows: tobacco, 50%; perfumes, cosmetics, and toiletries, 25%; soft drinks, 2% per 12 fl oz; foodstuffs for human consumption, 1%; and all other products, 3%. Micronesia's import taxes are among the lowest in the Pacific.

## 38 FOREIGN INVESTMENT

There is little foreign private investment. The Foreign Investment Act of 1997 was enacted to prohibit foreign investment in specific business activities, namely arms manufacture, minting of coins or printing of currency notes, and nuclear power or radioactivity-related businesses. The Act also restricts investment by foreigners

in banking, telecommunications, fishing, air transport, and shipping.

### 39 ECONOMIC DEVELOPMENT

The first national development plan (1985–89) was the initial stage of the government's 15-year program designed to achieve national self-sufficiency. Funds accruing under the Compact of Free Association were required for implementing the plan, and rephrasing of the plan was necessary. A multi-million dollar US-implemented capital improvement plan was scheduled for completion in 2001. It included new airports, docks, water and sewage systems, paved roads, and hospitals. Under the terms of the Compact, the United States provided \$1.3 billion from 1986–2001 in grant aid.

A Second National Development Plan covering the years 1992–96 sought to diversify Micronesia's economy; mainly to wean it from dependence on Compact funds. Little was accomplished. In late 1999, representatives of the United States and Micronesia began negotiations aimed at renewing some provisions of the Compact of Free Association.

### 40 SOCIAL DEVELOPMENT

The extended family and clan system, headed by traditional leaders or chiefs, is retained in varying degrees, especially in the outer islands. Rapid Westernization has resulted in an increasing incidence of juvenile delinquency, drug and alcohol abuse, and crime. A wide range of national and state social programs are ameliorating these trends. A social insurance system includes old age, disability, and survivor benefits. Employees contribute 5% of their earnings; employers make a 5% payroll contribution. The basic retirement pension benefit is 16.5% of the first \$10,000 and marginal rates beyond that level. Survivor payments totaled 60% of the descendant's pension.

In spite of Constitutional safeguards, sex discrimination and violence against women are serious problems. Women's roles within the family remain essentially the traditional ones. Sexual abuse and domestic violence are increasing. Women, however, face no discrimination in education. There are currently a higher percentage of graduates who are female at all educational levels.

Minorities generally do not face discrimination or prejudice. Non-citizens, however, are prohibited from owning land. Human rights are generally respected.

### 41 HEALTH

There are hospitals in each state center. In 1986, a community health center was established in Pohnpei and in 1987, a medical school was started. In the outer islands, primary medical services are provided through dispensaries staffed by health assistants. In 1982, a superdispensary was initiated in the Lower Mortlock Islands to serve 3,769 people scattered on seven atolls. Tertiary medical treatment is provided through patient referral to hospitals in Guam and Hawaii. All of Micronesia had access to safe water and sanitation in 1993.

The infant mortality rate in 1999 was 33.9 per 1,000 live births, and the life expectancy was 68.5 years. In the same year, the general mortality rate was 6 deaths per 1,000 people and the fertility rate was 3.9 children per woman. The maternal mortality rate was 121 per 100,000 live births in 1991–93. Immunization rates for Micronesian children under one year of age in 1994 were as follows: measles, 80%; tuberculosis, 50%; polio, 77%; and diphtheria, tetanus, and pertussis, 78%. Although polio has been eradicated, there have been cases of tuberculosis (173 in 1994) and measles (905 in 1994). Anemia was seen in 33% of children under the age of five in 1993.

### 42 HOUSING

In 1980 (the latest year for which statistics are available), the total housing consisted of 11,562 units, of which 47% were in

Truk, 32% in Pohnpei, 16% in Yap, and 5% in Kosrae. The average occupancy was seven persons per house. There has been a marked movement away from traditional construction materials toward imported lumber, plywood, and corrugated metal roofing.

### 43 EDUCATION

The state governments are responsible for the provision of education. Elementary education is compulsory up to the eighth grade or until age 15. In 1986 there were 142 primary schools, nine of them private, with 968 teachers and 23,636 pupils. Secondary education was provided through five public high schools, one in each state center and one in Falalop on the Ulithi atoll, serving Yap's outer islands, and through five private secondary schools, two in Truk and three in Pohnpei. The only post-secondary institution is the College of Micronesia (COM) in Pohnpei. However, in 1999 COM was in the process of opening a new campus built with US assistance, the beneficiary of Land Grant status through the US Department of Agriculture. FSM students are eligible for post-secondary education grants from the US government and attend institutions mainly in Guam, Hawaii, and the US mainland. Vocational education is provided by the Pohnpei Agriculture and Trade School and the Micronesian Occupational College in Palau.

A 1994 census poll reported that 22.8% of the FSM population had no schooling; 30.3% had some elementary schooling; 15.1% had some high school education; 13.6% had a high school diploma; 7.5% had some college; 6.1% had an associate's degree; 3.1% had a bachelor's degree; and 1.6% had engaged in graduate study.

### 44 LIBRARIES AND MUSEUMS

Most library materials are contained in the educational institutions; there are no public libraries. The library of the Congress of the Federated States of Micronesia holds 15,000 book volumes. The Community College of Micronesia, with 33,000 volumes, is the depository for documents from the trust territory government's archives in Saipan. There is a small museum in Kolonia, Pohnpei. The Nan Madol archaeological site was designated a historical landmark in 1986.

### 45 MEDIA

In 1983, the FSM Telecommunications Corp. provided interstate telecommunications via its satellite ground station in each state center and international connections through the Pohnpei and Truk stations. An interstate and international telex service has been available through the Pohnpei station since 1984. Telecommunications services to all inhabited outer islands are provided by radio links with the Pohnpei, Truk, and Yap stations. In 2001 there were 11,000 telephones.

There are no private newspapers. Newsletters are published by the national and state governments. *The National Union* comes out (twice monthly). State publications include *Mogethin* (Yap), *Uss Me Auus*, (Truk), *Pohnpei Reports*, *Kaselehile Press Pohnpei State*, and *Kosrae State Newsletters*.

As of 2001, there is one state-owned radio station in each state capital, broadcasting in English and local languages. There is one private radio station owned by a religious group. In 1997, there were 127 radios and 10 television sets per 1,000 population. In 2000, there were 2,000 Internet subscribers served by one service provider.

The Constitution provides for free speech and a free press, and the government is said to respect these rights in practice.

### 46 ORGANIZATIONS

There are Community Action Agencies in Yap, Truk, and Pohnpei, which organize youth clubs and community self-help projects. Private institutions, most of them church-affiliated, play

an active role in youth and community development. Many municipalities sponsor local women's organizations and community centers.

#### 47 **TOURISM, TRAVEL, AND RECREATION**

Tourist facilities have been developed in each state but are limited. Tourist attractions include the spectacular beauty of the high islands; the rich marine environment; World War II artifacts, including sunken Japanese ships in the Truk lagoon; and remains of an ancient culture on Yap Island, including stone platforms and large circular stones used as money.

In 2000, there were 32,530 tourist arrivals. The cost of staying in Truk, according to 2002 US government estimates, was about \$157 per day. Daily expenses were estimated at \$219 in Yap and \$130 in Pohnpei.

#### 48 **FAMOUS MICRONESIANS**

John Haglelgam, a former senator in the Congress, was elected president of the FSM from 1987 to 1991. In 2000, FSM's first 5-story building (and first building with an elevator) opened; it was named for Raymond Setik (d.1997), a successful businessman and one of the first members of the legislature in 1979.

#### 49 **DEPENDENCIES**

The FSM has no territories or colonies.

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# MONGOLIA

*Mongol Uls*

**CAPITAL:** Ulaanbaatar

**FLAG:** The national flag, adopted in 1946, contains a light blue vertical stripe between two red stripes; in gold, on the stripe nearest the hoist, is the *soyombo*, Mongolia's independence emblem.

**ANTHEM:** *Bügd Nayramdah mongol ard ulsyn töriin duulal* (*State Anthem of the Mongolian People's Republic*).

**MONETARY UNIT:** The tugrik (₮) of 100 mongos. There are coins of 1, 2, 5, 10, 15, 20, and 50 mongos and notes of 1, 3, 5, 10, 20, 25, 50, and 100 tugriks. ₮1 = \$0.0008833 (or \$1 = ₮1,132) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; Constitution Day, 13 January; Women's Day, 8 March; Mother and Children's Day, 1 June; Naadam Festival, 11–13 July; Mongolian Republic Day, 26 November. Movable holidays include Mongol New Year's Day, in February or March.

**TIME:** 8 PM = noon GMT.

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

Situated in east-central Asia, Mongolia has an area of 1,565,000 sq km (604,250 sq mi), extending 2,368 km (1,471 mi) E–W and 1,260 km (783 mi) N–S. Comparatively, the area occupied by Mongolia is slightly smaller than the state of Alaska. The largest landlocked country in the world, Mongolia is bordered on the N by Russia and on the E, S, and W by China, with a total boundary length of 8,162 km (5,072 mi).

## <sup>2</sup>TOPOGRAPHY

Mongolia is essentially a vast plateau with an average elevation of 914 to 1,524 m (3,000 to 5,000 ft). Mongolia comprises a mountainous section in the extreme west, where the peak of Nayramadlin Orgil (Huyten Orgil) of the Mongolian Altay Mountains rises to a height of 4,374 m (14,350 ft). Other mountain ranges are the Hentiyn, along the Soviet border, and the Hangayn, in west-central Mongolia. The southern part of the country is occupied by the Gobi, a rocky desert with a thin veneer of shifting sand. Explorations have uncovered large reservoirs of water 2–3 m (7–10 ft) beneath the desert surface.

## <sup>3</sup>CLIMATE

Mongolia has an arid continental climate with a wide seasonal range of temperature and low precipitation. In winter, it is the site of the great Siberian high, which governs the climate of a large part of Asia and gives Mongolia average winter temperatures of -21° to 30°C (-5° to -22°F) and dry, virtually snowless winters. In summer, remnants of the southeasterly monsoon bring most of the year's precipitation. Annual precipitation ranges from 25 to 38 cm (10 to 15 in) in mountain areas to less than 10 cm (4 in) in the Gobi.

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

Mongolia is divided into several natural regions, each with its characteristic plant and animal life. These regions are the mountain forests near the Soviet Siberian border; the mountain steppe and hilly forest farther south; the lowland steppe

grasslands; the semidesert; and finally the true desert. Larch and Siberian stone pine are characteristic trees of the northern forests, which are inhabited by bear, Manchurian red deer, snow panther, wild boar, and elk. The saiga antelope and the wild horse are typical steppe dwellers.

## <sup>5</sup>ENVIRONMENT

Environmental problems facing Mongolia include desertification, inadequate water supply, and air and water pollution. The presence of the Gobi Desert in the southeastern part of the country and mountains in the northwest provide natural limits to the amount of agricultural land. Areas affected by deforestation and excessive grazing are eventually overtaken by the desert.

Water pollution is a particularly significant problem in Mongolia because the water supply is so limited. The country has only 34.8 cubic kilometers of renewable water resources, 53% of which are used for farming. In 2000, only 77% of city dwellers and 30% of the people living in rural areas had access to pure water.

The country's air pollution problems are due to increased industrial activity within the country, including the burning of soft coal, and airborne industrial pollution from the former Soviet Union and the People's Republic of China. The heavy concentration of factories in Ulaanbaatar has polluted the environment in that area.

Przewalski's horse, the Bactrian camel, the snow leopard, and the saiga are among 12 mammals and 14 birds which are considered endangered. The Mongolian wild horse has become extinct in the wild.

After a winter of little snow, wildfires spread across northern Mongolia from March until June of 1996. The fires were the most extensive since records were first compiled in 1978, resulting in 26 deaths and nearly 800 people injured or rendered shelterless. An estimated 20% of Mongolia's coniferous forest was damaged in the blaze.

## 6 POPULATION

The population of Mongolia in 2003 was estimated by the United Nations at 2,594,000, which placed it as number 136 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 34% 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 1.29%, with the projected population for the year 2015 at 3,051,000. The population density in 2002 was 2 per sq km (4 per sq mi).

It was estimated by the Population Reference Bureau that 64% of the population lived in urban areas in 2001. The capital city, Ulaanbaatar, had a population of 740,000 in that year. Darhan has a population of 90,000; Erdenet, 58,200. According to the United Nations, the urban population growth rate for 2000–2005 was 2.3%.

## 7 MIGRATION

Few Mongolian nationals live outside the country, but 3.4 million persons of Mongolian extraction lived in the Inner Mongolia province of China. About 500,000 live in Russia—in the Buryat and Kalmyk republics. Between 1955 and 1962, some 20,000 Chinese laborers entered Mongolia to work on construction projects, but in 1964 Mongolia expelled about 2,000 Chinese nationals who had refused to take part in an agricultural resettlement program, and another 1,700 in 1983. In addition, Mongolia expelled 7,000 ethnic Chinese between 1983 and 1993. Since the independence of Kazakhstan, many Kazakhs have emigrated.

Nomadic herders account for nearly half of Mongolia's population. Mongolia is one of the only developing countries where internal migration to rural areas exceeds migration to cities. The number of families formally registered as nomadic herders grew from an estimated 74,000 in 1990 to 170,000 in 1995.

In 2000 the total number of migrants was 8,000, with virtually no refugees. The migration rate for that year was -6.5 per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

In 1999, 90% of the population consisted of Mongols, approximately three-quarters of them Khalkha. The Kazakhs are the leading minority group, making up about 4%. Peoples of Soviet and Chinese origin are also present in substantial numbers (2% each); other varied ethnic groups make up the remaining 2%.

## 9 LANGUAGES

Khalkha Mongolian, the official language, is spoken by about 85% of the population. It is one of a large dialect group in the Mongolic branch of the Altaic language family. Early in the 13th century, the Mongols adopted an alphabet written in vertical columns from the Turkic Uighurs, and they retained that script until modern times. The literary language differed increasingly from the living spoken language, and in 1941 the Mongolian government decided to introduce a new phonetic alphabet that would accurately reflect modern spoken Mongolian. The new alphabet consisted of the Cyrillic letters used in Russian, except for two special characters needed to render the Mongolian vowels represented as *ö* and *ü* in Western European languages. After a period of preparation (1941–45), the new alphabet was introduced in 1946 in all publications and in 1950 in all business transactions, but, following independence, the traditional script was due to be restored in 1994. The differences between the Khalkha language spoken in Mongolia, the Buryat language

spoken in the Buryat Republic of the Russian Federation, the Chahar and Ordos languages of China's Inner Mongolian Autonomous Region, and other Mongolian dialects are comparatively small and chiefly phonetic. A characteristic phonetic feature of Mongolian is the law of vowel harmony, which requires that a word contain either the so-called back vowels, represented as *a*, *o*, and *u* in Western European languages, or the so-called front vowels, represented as *e* (*ā*), *ö*, and *ü*, but not an association of the two types of vowels. Turkic, Russian, and Chinese are also spoken.

## 10 RELIGIONS

Before the government's campaign against religion in the 1930s, there were about 700 monasteries, with about 100,000 lamas (theoretically celibate), in Mongolia. During 1936–39, the Communist regime closed virtually all monasteries, confiscated their livestock and landholdings, tried the higher lamas for counterrevolutionary activities, and induced thousands of lower lamas to adopt a secular mode of life. In the mid-1980s, only about 100 lamas remained. The new constitution of 1992 established freedom of religion for all. Mahayana Buddhism, the primary religious following before the suppression of religion in the 1930s is making a surprising resurgence. Former monasteries are being restored, and there is a seminary at Gandantegchinlen Hiid. In 1992, Roman Catholic missionaries were also encouraged to come to Mongolia to continue the presence they had initiated earlier in the century.

A 2002 report indicates that about 93% of the population practice some form of Buddhism, mostly Lamaist (or Tibetan) Buddhism. About 4% of the population are ethnic Kazakh Muslims. There are small Christian communities throughout the country and it is believed that some natives practice shamanism.

## 11 TRANSPORTATION

The Trans-Mongolian Railway, about 1,496 km (930 mi) in length, connects Mongolia with both China and Russia. Ulaanbaatar has been connected to the Trans-Siberian Railway via Bayantümen since 1939 and via Sühbaatar since 1950, and to the Chinese Railways via Dzamin üüd since the end of 1955. Choybalsan is also connected to the Trans-Siberian system via Ereenstav. Ulaanbaatar Railways has been linked to Nalayah since 1938 and to Darhan and Tamsagbulag since 1964. The Sharin Gol Open-Pit Coal Mining Industry was connected to the Darhan industrial center during the third five-year plan (1961–65) by a 60-km (37-mi) rail line. A 200-km (124-mi) railroad line connects Erdenet, a copper-molybdenum mining and industrial center near the Russian border, with the Trans-Mongolian Railway. The total length of railroads in 2002 was 1,815 km (1,128 mi).

Mongolia had about 3,387 km (2,105 mi) of roadways in 2002, of which 1,563 km (972 mi) were paved. Freight and passenger traffic are carried on the Selenge River and across Hövsgöl Lake.

There were 34 airports in 2001, of which 8 had paved runways. Mongolia's first air service began operating between Ulaanbaatar and Verkhneudinsk in eastern Siberia in 1926. Miatair Mongol is the principal airline. In 2001, 255,300 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Archaeological investigations show that the land now known as Mongolia has been inhabited since the Lower Paleolithic period, more than 130,000 years ago. By about 1000 BC, animal husbandry of the nomadic type had developed, and by the 3d century BC, a clan style of organization based on horsemanship had emerged. The Huns, a Turkic-speaking people, driven westward during the Han dynasty in China (206 BC–AD 220), created a nomadic empire in central Asia that extended into



LOCATION: 87°47' to 119°54' E; 41°31' to 52°16' N. BOUNDARY LENGTHS: Russia, 3,441 kilometers (2,138 miles); China, 4,673 kilometers (2,904 miles).

Europe, beginning about AD 370. It reached almost to Rome under the leadership of Attila (r.433?–453) and declined after his death. Mongolia first played an important part in world history in AD 1206, when the Mongol tribes united under the leadership of the conqueror Temujin, or Genghis Khan. The Mongols set up their capital at Karakorum and established a vast empire extending from the northern Siberian forest to Tibet and from the Caspian Sea to the Pacific. After the death of Genghis in 1227, his empire was divided among his sons into Mongol states, or khanates: the Great Khanate of East Asia, which included the Yuan dynasty of China, and reached its peak under Kublai Khan (r.1260–94), who established his capital at Cambaluc (now Beijing); the Khanate of Chaghadai (Djakhatai) in Turkestan; the Hulagid Khanate, founded by Hulagu Khan in Persia; and the Golden Horde in southern Russia, founded by Batu Khan, who invaded Poland and Hungary in 1240. Having crossed the Danube River, Batu withdrew in 1241. The Mongols' century of dominance in Asia allowed for great trade and cultural interchange but also led to the spread of the bubonic plague to Europe.

During the 14th century, the great Mongol states disintegrated. The Yuan dynasty in China collapsed in 1368, to be replaced by the Ming dynasty; the western part of the Turkestan Khanate was incorporated into the empire of Timur in 1390; Hulagu's Persian empire disintegrated after 1335; and the Golden Horde was attacked and shaken by the forces of Prince Dmitry Donskoy in Russia in 1380 but ruled South Russia into the 15th century. In 1369, at the age of 33, Timur, also called Timur Lenk ("Timur the Lame") or Tamerlane, proclaimed himself ruler of all the land lying between the Tien Shan and the Hindu Kush mountain ranges. The Mongols retired to their original steppe homelands, splitting into three major groups: the northern Khalkha Mongols, north of the Gobi Desert; the southern Chahar Mongols, south of the Gobi; and the western Oirat Mongols. Babur, a descendant of Timur, founded the Mughal (or Mogul) Empire (so called from the Farsi word for "Mongol") in India in 1526; it lasted until the 18th century. Buddhism, which had been introduced by Tibetan monks in the 15th century, became widespread in the 16th and 17th centuries.

A cleavage developed between the northern (outer) Mongols and the southern (inner) Mongols, who had been more closely

associated with Mongol rule in China. In the course of conquering China, the Manchus subdued the southern Mongols in 1636, placing them under the eventual rule of China's Qing (Ch'ing) or Manchu dynasty (1644–1911). The northern Mongols, who had been fighting with western Mongols for supremacy, sought Manchu aid against their foes and accepted Manchu suzerainty in 1691. Finally, the Manchus destroyed the western Mongols as a historical force in 1758. The Russian-Chinese border treaties of Nerchinsk (1689) and Kyakhta (1727) confirmed Chinese rule over both the southern and northern Mongols but assigned the Buryats to Russia.

Following the overthrow of the Manchu dynasty by the Chinese revolution in 1911, northern Mongol princes proclaimed an autonomous Outer Mongolia under the rule of Bogdo Khan, the Living Buddha (Jebtsun Damba Khutukhtu) of Urga, an earlier name of Ulaanbaatar. A treaty with the tsar's government pledged Russian assistance for the autonomous state. After the Bolshevik Revolution, the Chinese exploited Russia's weakness, reoccupying Outer Mongolia in 1919 and ending its autonomy. In early 1921, the Chinese were driven out by Russian counterrevolutionary forces under Baron von Ungern-Sternberg. He, in turn, was overcome in July 1921 by the Mongol revolutionary leaders Sukhe Baatar and Khorloin Choybalsan, assisted by the Soviet Red Army. Under Soviet influence, a nominally independent state, headed by the Living Buddha, was proclaimed on 11 July 1921 and lasted as a constitutional monarchy until his death in 1924.

The Mongolian People's Republic (MPR), the second communist country in world history, was proclaimed on 26 November 1924. With the support of the former USSR, Communist rule was gradually consolidated. Large landholdings of feudal lords were confiscated, starting in 1929, and those of monasteries in 1938. A 10-year mutual assistance treaty, signed in 1936 and renewed for another 10 years in 1946, formalized the close relations between the former USSR and the MPR. In the summer of 1939, with Soviet support, the Mongolians fought invading Japanese along the border with Manchuria, ending with a solid defeat for the Japanese in September. After a virtually unanimous plebiscite by the Mongolians in favor of independence, the Nationalist government of the Republic of China formally recognized the MPR in 1945 (it withdrew its recognition in 1953) and the Nationalists on Taiwan still claim Mongolia as part of China. On 14 February 1950, the People's Republic of China and the former USSR signed a treaty that guaranteed the MPR's independence. In October 1961, the MPR became a member of the United Nations. Conflicting boundary claims between the MPR and China were settled by treaty on 26 December 1962, and on 30 June 1964 the MPR and the former USSR signed a 20-year treaty of friendship, cooperation, and mutual assistance. In June 1987, the MPR and the United States established diplomatic relations. With the growth of cities around the mining industry, Mongolian society shifted from being 78% rural in 1956 to being 58% urban in 1989.

With their close ties with the former USSR, Mongolians were well aware of Soviet policies of *glasnost* (openness) and *perestroika* (restructuring) and of the democratic movements in Eastern Europe after the mid-1980s. The MPR initiated its own policy of "openness" (il tod) and began economic reforms to serve as transitional steps away from a centrally planned, collective economy and toward a market economy. Following the first popular demonstrations calling for faster reforms, in Ulaanbaatar in December 1989, the ruling Mongolian People's Revolutionary Party (MPRP) opted for political as well as economic reforms. The MPRP's leadership resigned in March 1990 and in May the constitution (of 1960) was amended to allow for new, multiparty elections, which took place in July. The MPRP won a majority (85% of the seats) in the legislature, the People's Great Hural (PGH), which took office in September. The

PGH elected as president a member of the MPRP, Punsalmaagiyn Ochirbat, but invited the opposition parties to join in forming the new government.

During 1991, the new government discussed Mongolia's economic and political transformation. It issued vouchers to all citizens for the purchase of state property as a step toward privatization. Economic reform was made more difficult by the economic collapse of the former Soviet Union. In 1991, Russia insisted on trade based on cash rather than barter and dramatically cut aid. By 1992, Mongolia faced severe energy shortages. In 1991, the PGH also discussed the writing of a new constitution, which took effect in February of the next year. Based on that constitution, elections in June 1992 created a new legislature (with a MPRP majority), the State Great Hural (SGH) and, in June 1993, President Ochirbat was reelected (but with the support of a coalition of new parties, not the MPRP) in the first direct presidential elections. By September 1992, some 67,000 former Soviet troops (in Mongolia since 1966 when Sino-Soviet tensions increased) completed a process of withdrawal begun in 1990.

In the 1996 parliamentary elections, discontent, especially among the young, led to the defeat of the MPRP. The leaders of the winning Democratic Union Coalition (DUC), mostly political novices, promised to intensify market reforms. The election results marked the first smooth transfer of power in Mongolia's modern history and one of the most peaceful among all the former communist nations. In the following years, however, the stability and effectiveness of Mongolia's democratic government were hobbled by disunity within the majority DUC and by the political stalemate between the DUC and the ex-communists of the opposition MPRP. In late 1996 and early 1997, the MPRP prevailed in local elections, and its candidate, Natsagiyn Bagabandi, was elected president. After the resignation of two prime ministers, the nation was left with an interim government in the second half of 1998, as Bagabandi rejected multiple DUC nominees for the post.

In October 1998 the country was shaken by the murder of Sanjaasurengiyn Zorig, a pro-democracy leader and government minister who had been tapped to be the next DUC nominee for prime minister. By August 1999, yet another DUC government had fallen, and Rinchinyamiin Amarjargal, the 38-year-old former foreign minister, became Mongolia's third prime minister in 15 months.

On 2 July 2000, parliamentary elections were held that resulted in an overwhelming victory for the MPRP. The MPRP took 72 of 76 seats in the State Great Hural, with only 4 seats going to opposition members. Nambaryn Enkhbayar was named prime minister. On 20 May 2001, Bagabandi was reelected president with 58% of the vote, giving the MPRP control of both the presidency and parliament. The elections were characterized by international observers as free and fair.

In November 2002, the Dalai Lama visited Mongolia, a trip denounced by China. China warned Mongolian officials not to meet with the Tibetan spiritual leader, and briefly suspended train services with the country. Thousands of Mongolian Buddhists attended the Dalai Lama's speech on 6 November.

As of early 2003, the country continued to face problems of high unemployment, poor welfare and education systems, corruption, crime, and harsh winters. The severe winter of 2001 killed at least 1.3 million livestock; approximately 40% of Mongolians depend upon the country's 30 million livestock for their livelihood. Mongolia, though engaging in increased privatization of state-owned enterprises to speed the country's alignment with free market principles, has been careful to dedicate a percentage of the resulting revenues to social programs.

### 13 GOVERNMENT

A new constitution went into effect 12 February 1992, replacing the 1960 constitution and completing Mongolia's transition from a single-party state to a multiparty, parliamentary form of government. At that time, the country's name was officially changed from "Mongolian People's Republic" to "Mongolia." Suffrage is universal at age 18. The unicameral legislature, the State Great Hural (SGH), has 76 members, who are elected by district to four-year terms. The SGH meets twice each year. It can enact and amend laws, set domestic and foreign policy, ratify international agreements, and declare a state of emergency.

A president, the head of state and commander-in-chief of the armed forces, is selected by direct, popular vote for a four-year term, with a limit of two terms. The president nominates the prime minister and can call for the dissolution of the government, initiate and veto legislation (subject to override by two-thirds vote of the SGH), and issue decrees which take effect with the signature of the prime minister.

A prime minister, the head of government, is nominated by the president and confirmed by the SGH to a four-year term. The prime minister selects a cabinet which must be confirmed by the SGH. The government dissolves when the prime minister resigns, when half the cabinet resigns simultaneously, or upon a vote for dissolution by the SGH.

### 14 POLITICAL PARTIES

The Mongolian People's Revolutionary Party (MPRP), which had been the single ruling party since 1924, legalized opposition parties in 1990. In addition to the MPRP, major parties prior to the 2000 elections included the Democratic Union Coalition (DUC), which included the Mongolian National Democratic Party (MNDP), the Mongolian Social Democratic Party (MSDP), the Green Party (NYAM), and the Mongolian Democratic Party of Believers (MDPB); Mongolian Conservative Party (MCP); Democratic Power Coalition, which included the Mongolian Democratic Renaissance Party (MDRP) and Mongolian People's Party (MPP); Mongolian National Solidarity Party (MNSP); Bourgeois Party/Capitalist Party; United Heritage Party (UHP), which included the United Party of Herdsman and Farmers, Independence Party; Traditional United Conservative Party, and Mongolian United Private Property Owners Party; and the Mongolian Workers Party. The Democratic Union Coalition broke into its constituent parties prior to the July 2000 elections, and reorganized itself as the Mongolian Democratic Party in order to participate in the May 2001 presidential election.

In the first election for the State Great Hural (SGH) 28 June 1992, the MPRP won 56.9% of the vote and 71 of 76 seats in the SGH. In the first direct presidential election, 6 June 1993, President Punsalmaagiyn Ochirbat (first elected president 3 September 1990) was reelected with 58% of the vote. A former member of the MPRP, Ochirbat defeated that party's candidate, running as head of a coalition of the SDP and MNDP.

In the elections of 30 June 1996, the Democratic Union Coalition (which included the MNDP, the MSDP, and two smaller parties) defeated the MPRP, winning 50 of 76 seats (an increase of 44 seats). The MPRP won 25 seats, and the remaining seat went to the MCP. The DUC campaign platform included the Mongolia's Contract With Voters, which promised to cut government spending, reduce welfare, and reorganize the transformation of the government.

In the July 2000 parliamentary elections, MPRP candidates won 72 of the 76 seats, with the remaining 4 seats won (one each) by MNDP, the Civil Courage Party or Civil Will Party (CWP) in alliance with the Mongolian Green, the Motherland Alliance (the Mongol Democratic New Socialist Party and the Mongolian Labor Party), and an independent non-partisan

candidate. As of late 2002, there were 18 political parties operating in Mongolia.

### 15 LOCAL GOVERNMENT

Mongolia administratively consists of 21 provinces (*aymag*), divided into 334 counties (*soums*) and lesser administrative units called *baghs*, as well as one autonomous city, Ulaanbaatar, which is divided into districts and *horoos*. Each level of local administration has its own legislative body, or *hural*. These hurals nominate the provincial governors, who are then appointed by the prime minister.

In October 2000 local elections, the MPRP repeated its parliamentary election victory of July, winning 552 of 695 seats in the provincial and Ulaanbaatar governments. The democratic opposition took 87 local government seats, and independent candidates and small parties took 31 seats.

### 16 JUDICIAL SYSTEM

Prior to the 1992 constitution, justice was administered through a Supreme Court elected by the People's Great Hural; province and city courts, elected by the corresponding assemblies of people's deputies; and lower courts. The 17-member Supreme Court remains the highest judicial body with a Constitutional Court vested with sole authority for constitutional review. The local courts (people's courts) handle most routine civil and criminal cases. Provincial courts hear more serious cases and review local court decisions. The Supreme Court hears appeals from the local and provincial courts. The old specialized military justice and railway courts have been abolished. All courts are now organized under a single unified national system.

The General Council of Courts nominates and the president appoints the lower and the Supreme Court judges.

The new constitution provides for a completely independent judiciary. It also promises procedural due process rights to a fair trial, legal assistance, right to appeal, and access to requests for pardons, among others.

### 17 ARMED FORCES

In 2002, the armed forces totaled 9,100 active personnel with reserves of 137,000. The army had 7,500 equipped with 370 main battle tanks. The air defense force had 800 personnel and was equipped with 11 armed helicopters. Paramilitary forces consisted of a border guard numbering 6,000 and internal security troops of 1,200. Mongolia spent an estimated \$24.3 million for defense in 2001 or 2.5% of GDP.

### 18 INTERNATIONAL COOPERATION

Admitted to the UN on 27 October 1961, Mongolia participates in ESCAP, FAO, IAEA, ILO, IMF, ITU, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and the World Bank. It is a signatory to the Law of the Sea treaty, and a member of the WTO. Mongolia is an observer at ASEAN, and participates in the Asian Development Bank and the G-77.

The principal ally of Mongolia was the former USSR, which provided substantial economic and military assistance over the years. In 1986, the MPR made efforts toward normalizing relations with China, which had become strained after the expulsion of Chinese laborers in 1983, by establishing the first five-year trade agreement between the two countries, restoring air service and improving rail service between them, and exchanging consular delegations for the first time.

In the 1990s, Mongolia expanded its political and financial relationships with the United States, Japan, and the European Union. However, it remains dependent upon Russia and China for the development of its economy and trade.



## 19 ECONOMY

After 70 years as a centrally planned economy, Mongolia has undergone a difficult transition towards a free market system since 1990. With the help of active government promotion, the country's industrial sector grew steadily for several decades, expanding from 7% of the national income in 1940 to 35% by 1997, as agriculture's share of total production declined from 79% to 31%. Despite these changes, animal husbandry has remained a dominant sector of the economy, with live animals and animal products accounting for a major share of current exports, and livestock providing much of the raw material processed in the country's industrial sector. Total Soviet assistance at the height of Soviet support amounted to 30% of GDP. A number of factors, including the sudden cessation of economic aid from the former Soviet Union and allied countries, the disruption of trade with traditional trading partners, as well as a severe winter in 1990/91, caused a steep decline in the country's economic activity in the early 1990s. The annual growth rate of the GDP dropped steeply from 8.3% to -9.5% in 1992, and -3% in 1993.

Despite these difficulties, the government continued its economic transformation program involving the privatization of most previously state-owned enterprises and other policy reforms. In 1994, GDP grew by 2.3%, followed by further increases of 6.3% in 1995, 2.6% in 1996, 4% in 1997, 3.5% in 1998, 3.2% in 1999, 1.1% in 2000 and 1.4% in 2001. Although the economy has grown steadily since 1994, the economic wellbeing of most people is still in decline. Inflation reached a peak of over 325% in 1992, accelerating faster than wages, but dropping to about 4% in 1995. In 1999, inflation jumped to 10%, and was at 8% and 8.1% in 2000 and 2001. Development of the country's rich oil and mineral resources continues to be a high priority, and negotiations for the exploitation of oil, gold and rare earth elements with foreign companies are being actively pursued. Estimates for 2002 were for a real GDP growth rate of 3.9% and an inflation of 6%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Mongolia's gross domestic product (GDP) was estimated at \$4.7 billion. The per capita GDP was estimated at \$1,770. The annual growth rate of GDP was estimated at 2.4%. The average inflation rate in 2000 was 11.8%. 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 32% of GDP, industry 30%, and services 38%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$12 million or about \$3 per capita and accounted for approximately 0.8% of GDP. Worker remittances in 2001 totaled \$24 million. Foreign aid receipts amounted to about \$88 per capita and accounted for approximately 21% of the gross national income (GNI).

Approximately 56% of household consumption was spent on food, 9% on fuel, 8% on health care, and 14% on education. The richest 10% of the population accounted for approximately 24.5% of household consumption and the poorest 10% approximately 2.9%. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that in 2001 about 36% of the population had incomes below the poverty line.

## 21 LABOR

In 2000, the workforce was estimated at 1.4 million people. About half of the population engages in animal husbandry as

nomadic herders. In 2000, unemployment officially stood at 20%. A shortage of skilled labor had required the procurement of a large supplementary workforce from the former USSR and Eastern Europe.

The right to organize trade unions and professional organizations is granted by the 1990 constitution. In that year, the Association of Free Trade Unions, (AFTU) which includes about 70 unions, was chartered. In 2002, there were 400,000 unionized workers, amounting to less than 50% of the workforce. Nonessential workers have a right to strike.

According to the labor code, the working week is fixed at 40 hours, and for those under 18, at 36 hours. Children as young as 14 or 15 may work with parental permission. In reality, regulations regarding child labor are not effectively enforced. The legal minimum wage was less than \$25 per month in 2002, although most workers earned in excess of this amount.

## 22 AGRICULTURE

As of 1998, cropland amounted to 1,322,000 hectares (3,266,000 acres), up from only 1,160,000 hectares (2,866,000 acres) in 1979; the cultivated area represents only 1% of potentially arable land. The high altitude, temperature extremes, long winters, and low precipitation provide limited potential for agricultural development. Crop production accounts for 3% of all employment.

Shortages of fuels and parts for agricultural equipment caused crop production to decline by 70% during the 1990s. Principal crops produced in 1999 (in 1,000 tons) included: wheat, 168; barley, 3; potatoes, 64; and vegetables, 47. Trade in agricultural products in 2001 consisted of \$79.5 million in imports and \$96.5 in exports.

## 23 ANIMAL HUSBANDRY

Animal husbandry is the backbone of Mongolia's economy, employing some 160,000 persons. After Mongolia became the world's second communist country in 1924, many nomads settled down to raise livestock on state-owned collectives. Pastures constitute about 75% of the national territory. In 2001 there were 13,876,000 sheep, 10,269,000 goats, 3,097,000 cattle, 3,200,000 horses, 352,000 camels, and some 21,000 hogs. The goat population increased by over one million in 1994/95, due to a boom in the cashmere industry. The meat produced in 2001 was 290,000 tons. Because of the harsh climate, Mongolians consume much fat and meat during winter, and dairy products in the summer.

Mongols claim that the Mongolian thoroughbred is the progenitor of many breeds of race horses worldwide; furthermore, its stamina and speed over long distances surpass Arabic and Akhaltec racers. The Mongolian Horse Association was founded in February 1989 in Zunmod to increase the population and preserve traditional horse-breeding techniques, which were largely being forgotten over the past three decades.

Hunting remains an important commercial activity, with furs and skins the chief products. In 1999, production of skins and hides was estimated at 26,000 tons from sheepskins and 21,000 tons from cattle hides.

## 24 FISHING

Fishing is not a significant industry in Mongolia. The total catch in 2000 was 425 tons.

## 25 FORESTRY

Forests cover about 6.8% of the total territory of Mongolia, mainly in the area around Hövsgöl Lake. It is estimated that the country's total timber resources represent at least 1.25 billion cu m (44 billion cu ft). Birch, cedar, larch, and fir trees predominate. In 2000, the timber cut was 6,314,000 cu m (222.9 million cu ft),

with 29% burned as fuel. The lumber industry yielded 300,000 cu m of sawn wood that year.

## 26 MINING

Mongolia was the world's third-largest producer of fluorspar and among the top three producers in Asia and the Pacific of copper and molybdenum. Copper was the top export commodity in 2002 (almost all copper concentrates were exported, mainly to China and Russia), and fluorspar and other nonferrous metals were other top export commodities. Construction, mining (of coal, copper, molybdenum fluorspar, and gold), and oil were Mongolia's top three industries. Geological surveys have uncovered deposits of some 80 minerals, which were largely untapped. Also produced in 2000 were cement, hydrated lime, quicklime, varieties of stone, and silica. Most mining operations were in the eastern and northcentral regions, including the Erdenet copper mining center.

Output in 2000 included, in tons: mine copper (metal content), 125,227; fluorspar (including acid grade and submetallurgical), 198,000, up from 155,000 in 1999 (nearly all was exported to Russia); mine molybdenum, 1,335, down from 1,910 in 1999; gypsum, 25,000; and mine tungsten, 52, up from 27 in 1999. Gold output for 2000 was 11,485 kg, up from 6,976 in 1996. Gold mining increased significantly in the 1990s, and the number of companies engaged in gold mining grew to more than 100; total reserves were estimated to be 2,000 tons gold in 17 regions, the most important being Naran, Tolgoi, and Zamar. No tin was mined in 1999 and 2000, and uranium production ceased after 1997. The Erdenet copper-molybdenum mine, completed in 1981, was developed by the state in cooperation with the former USSR, and was 51% owned by the Mongolian government and 49%, by the Russian government. Clay, gold, gypsum, limestone, molybdenum, salt, sand and gravel, silver, precious stones, and tungsten were mined by small operations.

Mongolia's GDP rose by 3% in 2000, 3.2% in 1999, and 4.0% in 1997; it declined by 3.5% in 1998. The mining and quarrying sector accounted for 8.5% of GDP. The value of mineral exports accounted for 40.5% of Mongolia's \$466.1 million in total exports. The government encouraged foreign investment and adopted a number of long-term programs to explore for and develop metallic and nonmetallic minerals. Ivanhoe Mines Ltd. estimated that the Oyu Tolgoi had as much as 750 million tons of copper and gold resources; initial drilling had begun. The Tsagaan Suvraga porphyry copper deposit, in southwestern Sayanshand City, in the northern part of the Ulaan-Uul structural-formational zone of the south Gobi mineral belt, contained 240 million tons of sulfide ore at a grade of 0.53% copper and 0.018% molybdenum. The government was looking for investors to develop a 500-million-ton iron ore deposit north of Darkhan City; and construction of the Tsaiminerals' Tumurtiin Ovoo Mine, near Sukhe Bator, began in 2000, and would, after completion in 2004, produce 68,000 tons per year of zinc concentrates for 27 years, to be exported mainly to China.

Parliament-approved guidelines for 2001–2004 would privatize 27 state-owned enterprises and restructure 25 state-owned enterprises and organizations. Copper mining remained state owned. In 1997, the government modified mining laws to increase the land open to exploration to 40%, change policies regarding exploration licenses, and grant tax incentives to promote mining.

## 27 ENERGY AND POWER

In 2001, the installed capacity of the electric power stations in Mongolia amounted to 901,000 kW. About half the population is served with electricity. Three major power plants are in Ulaanbaatar, one is in Darhan, and smaller facilities are in Sühbaatar and Choybalsan. In 2000, the output was 2.8 billion kWh, of which 100% was from fossil fuels. Electric power

outages in rural areas can last for months. Consumption of electricity in 2000 was 2.7 billion kWh.

The Baga Nuur and Shariyn Gol mines were the two major coal mines. Mongol Gazry Tos, a state-owned petroleum company, has explored for new oil wells in the Dzuunbayan oil field near Saynshand in Dornogovi Aimag. Oil sands in the Tamstag Basin were determined to be commercially viable in 1995. Shortages of gasoline are common in the countryside, due to the declining deliveries from Russia.

## 28 INDUSTRY

Small-scale processing of livestock and agricultural products has historically been a mainstay of Mongolia's industrial sector. With the establishment of the Erdenet copper plant in the late 1970s, metal processing also became an important part of the economy. In 1996, industrial output was estimated at T239.3 billion, with production of metals accounting for 32.6%; energy production, 19.1%; processed foods, 15.8%; wool and woolen apparel, 11.5%; mineral fuels, 6.8%; chemicals, 6.7%; and other items, 7.5%. Much of the country's industrial activity is concentrated in four centers: Ulaanbaatar, Erdenet, Darhan, and Choybalsan. Industry employed approximately 74,100 persons in 1996.

Mongolia's industrial development has been severely affected by dwindling imports of fuel, spare parts, and equipment formerly obtained from the former USSR and allied trading partners. As a result, total output from the industrial sector generally declined in the early 1990s, falling by 2.5% in 1996. By 1997, the industrial sector had begun to recover, with growth estimated that year at 4.5%. Industrial growth in 2000 was 2.4%. Industrial production in Mongolia included about 40 different commodities. As of 2002, the production of food, leather, shoes, glass, and garments were on the decline, while production of copper and molybdenum concentrates, coal mining, and the food and beverage industries were increasing. About 72% of the economy had been privatized by 2000.

## 29 SCIENCE AND TECHNOLOGY

The Academy of Sciences, in Ulaanbaatar, was founded in 1921 and reorganized in 1961. It includes departments of agriculture, chemistry and biology, geography and geology, medicine, and technology; and numerous research institutes concerning agriculture, fisheries and veterinary science, medicine, natural sciences, and technology. The Natural History Museum in Ulaanbaatar features Gobi Desert dinosaur eggs and skeletons. The National University of Mongolia, founded in 1942 at Ulaanbaatar, has faculties of mathematics, natural sciences, physics, and biology, and undertakes research with the State Construction Research Institute in pursuit of knowledge related to nuclear physics, biophysics, mineral resources, energy, and communications. The Mongolian Technical University, founded in 1969 at Ulaanbaatar, has schools of power engineering, mechanical engineering, civil engineering, and geology and mining engineering. In 1987–97, science and engineering students accounted for 24% of college and university enrollments.

## 30 DOMESTIC TRADE

Prior to economic reforms of the early 1990s, consumer goods produced at Ulaanbaatar or imported from abroad were distributed by state marketing agencies to retail outlets in local administrative centers. Prices for all items except consumer services and some luxury goods were set by the government. With steady price liberalization undertaken since 1990, prices are now closely regulated for only a few staples, such as fuel, rice, and flour.

Because the rapid dismantling of the government's centrally planned distribution system proceeded without an effective alternative yet in place, severe supply shortages have been experienced especially in the country's urban centers. To reduce

these shortages, a system of public markets has been developed where supplies in excess of targeted deliveries can be sold freely. Commodity exchanges, however, still retain some of the characteristics of a centrally planned economy. Bartering is still common among Mongolia's nomadic population.

As of 2002, wide-spread reform toward privatization was nearly completed and these privately-owned enterprises have begun to show growth in contributions to the economy. The government still seeks foreign investment as a major opportunity to boost and stabilize the domestic economy.

Business hours are generally from 9 AM to 6 PM, Monday through Friday.

### 3<sup>1</sup> FOREIGN TRADE

Minerals, mainly copper concentrates and molybdenum, were Mongolia's largest exports. In 1998, exports totaled \$316.8 million. The second most important export category includes wool, hides, and skins, followed by consumer goods, mainly manufactured garments. The liberalization and expansion of free trade zones have promoted the export of manufactured goods such as spun wool and cashmere, carpets, leather goods, green tea, canned meat, and light consumer goods. In 1999, imports amounted to \$472.4 million. Imports included machinery and equipment, fuels, rice, wheat flour, industrial consumer goods, chemicals, building materials, sugar, and tea.

Although Mongolia continues to depend on the republics of the former USSR (especially Russia) as its dominant trading partners, the country's trading profile has changed greatly since the mid-1980s. In 1985, communist countries, excluding China and North Korea, accounted for 95.5% of Mongolia's exports and 98.1% of its imports. In 1997 Mongolia joined the World Trade Organization. By 1998 Russia accounted for only 12.1% of exports, while their share of imports fell to 30.6%.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
China (inc. Hong Kong)	274	126	148
United States	93	28	65
Russia	45	206	-161
United Kingdom	11	6	5
Japan	8	73	-65
Korea	3	56	-53
Germany	2	30	-28
Singapore	n.a.	11	n.a.
France	n.a.	8	n.a.

### 3<sup>2</sup> BALANCE OF PAYMENTS

Mongolia consistently imports more than it exports. The sudden discontinuance of grants and debt cancellations by the former Soviet Union devastated the balance of payments position. Subsequently, the IMF in 1993, 1997, and 2001 approved a series of three-year loans to Mongolia, the last due to expire in September 2004.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Mongolia's exports was \$466.1 million while imports totaled \$614.5 million resulting in a trade deficit of \$148.4 million.

The International Monetary Fund (IMF) reports that in 2001 Mongolia had exports of goods totaling \$460 million and imports totaling \$549 million. The services credit totaled \$86 million and debit \$174 million. The following table summarizes Mongolia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-151</b>
Balance on goods	-89
Balance on services	-87
Balance on income	4
Current transfers	22
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>121</b>
Direct investment abroad	...
Direct investment in Mongolia	63
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-14
Other investment liabilities	73
<b>Net Errors and Omissions</b>	<b>-54</b>
<b>Reserves and Related Items</b>	<b>83</b>

### 3<sup>3</sup> BANKING AND SECURITIES

Before 1924, Mongolia lacked its own banks and currency. Mongolians bartered, using such commodities as livestock, tea, and salt for exchange, or such foreign currencies as the US dollar, the Russian ruble, the British pound, and the Chinese Mexican dollar in commerce. Chinese and Russian banks offered credit, as did monasteries and private moneylenders. The government began to transform this chaotic monetary situation with a series of reforms, starting with the establishment of Mongolbank, or the Mongolian Trade-Industrial Bank, in June 1924. Mongolbank was founded as a Mongolian-Soviet joint-stock company. In February 1925, the tugrik was made the official national currency, and it was slowly introduced into circulation over the next three years. In April 1928, all other currencies were withdrawn from circulation. In 1929, the government drove private moneylenders out of business by establishing a monopoly on foreign trade and outlawing private lending.

In April 1954, the Soviet Union handed over its shares in Mongolbank, which was renamed the State Bank of the Mongolian People's Republic, which remains the official bank of Mongolia. However, recent economic reforms have allowed the formation of a commercial banking sector. The economic reforms were brought about by the collapse of the Soviet Union in the early 1990s.

Mongolia has a two-tier banking system where control of the money supply is invested in the central bank. The Bank of Mongolia has established lending rules the commercial banks must follow. Also, reserve requirements are set by the national bank. In 1991, commercial functions were separated from the Mongol Bank, and two commercial banks were created; by the late 1990s there were 18. On advice from the Asian Development Bank, the government closed a number of banks in 1999 and 2000, leaving 12 in operation in an effort to restructure the two-tier system. In 2000, the World Bank gave Mongolia a loan earmarked for restructuring of its financial systems. Also in that year, foreign exchange reserves reached \$123 million. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$142.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$301.6 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.6%.

The Mongolian Securities Exchange opened in August 1995. About 60,000 individuals have opened accounts on the stock market. By 1996, more than 7.8 million shares from 400 companies had been traded and 28,000 contracts concluded; average daily trade volume is 60,000-80,000 shares.

### 3<sup>4</sup> INSURANCE

In the 1980s, insurance was offered by the State Directorate for Insurance, or Mongoldaatgal, which was under the control of the

Ministry of Finance. The government was planning to introduce health insurance in 1993 as a cooperative effort between individuals, government agencies, and the private sector.

### 35 PUBLIC FINANCE

The annual budget is submitted to the People's Great Hural for approval. Privatization did not begin until fiscal year 1990/1991 along with political upheaval. Privatization of large state businesses has begun, as has the implementation of tax reforms. Most small businesses were private as of 2001.

The US Central Intelligence Agency (CIA) estimates that in 2000 Mongolia's central government took in revenues of approximately \$262 million and had expenditures of \$328 million. Overall, the government registered a deficit of approximately \$66 million. External debt totaled \$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	100.0%	262
Tax revenue	72.2%	189
Non-tax revenue	24.1%	63
Capital revenue	1.2%	3
Grants	2.5%	7
EXPENDITURES	100.0%	335
General public services	8.3%	27
Defense	7.2%	24
Public order and safety	4.4%	14
Education	7.7%	25
Health	8.5%	28
Social security	23.8%	78
Housing and community amenities	0.5%	2
Recreation, cultural, and religious affairs	2.5%	8
Economic affairs and services	14.0%	46
Other expenditures	20.6%	67
Interest payments	4.7%	15

### 36 TAXATION

The turnover tax, for the majority of state revenues, is an indirect sales tax levied at the production stage on all manufactured commodities. Personal taxes consist of income taxes, paid by salaried industrial workers and office employees, and livestock taxes on private herders, based on the number of livestock owned. There is a collection of 40% on taxes levied on enterprises with foreign capital.

### 37 CUSTOMS AND DUTIES

Mongolia collects a general import tariff of 5% and a value-added tax (VAT) of 13% on all imported items. Customs duties have been insignificant, yielding less than 1% of total state revenues.

### 38 FOREIGN INVESTMENT

Prior to 1990, no private investments were possible in Mongolia; much of the country's investment capital was derived from government loans and grants provided by the former USSR and allied countries. New government policy and laws since the late 1980s, including the Foreign Investment Law of 1993, provide the legal basis and incentive for foreign investments. In 1994, Mongolia concluded a Bilateral Trade and Investment Agreement (BTIA) with the US, in 1997 accessed to the WTO, and in 1999 was granted normal trade relations (NTR) status by the US.

The Foreign Investment and Taxation Laws provide for tax incentives and exemptions for foreign investment. Total income tax exemptions are granted to businesses engaged in

infrastructural projects like building power plants, thermal plants, power transmission networks, highways, railways, and air cargo transportation facilities. Mining operations, metallurgy operations, chemicals production, and machinery and electronics manufacturing receive a 10-year tax holiday, and 50% tax exemption for the next five years. Companies that export more than 50% of production receive a three-year tax holiday, and 50% tax exemption for another three years. Thus far, private foreign capital remains a small source of investment in the country. Mongolia's lack of infrastructure remains an impediment to foreign investment. A north-south paved road running from Russia to China and through the capital was completed with finance from the Asian Development Bank (ADB) but Mongolia still lacks an East-West highway. As of July 2000, cumulative foreign investment in Mongolia totaled \$308.4 million. The biggest source has been China, including Hong Kong (\$86 million), followed by Japan (\$47.5 million), South Korea (\$30.4 million), the US (\$27.1 million), Russia (\$15.5 million) and Canada (\$9.3 million). The sector attracting the most foreign direct investment (FDI) has been mining (24%), followed by light industry (19.6%); raw material processing, including cashmere (10.9%); trade and catering (6.4%); construction (6.3%); banking and financial services (5.4%) and telecommunications (5.0%). Leading investors include Sumitomo Corporation and Komatsu of Japan; Korean Telecom; and SOCO Oil, Caterpillar, and Nescor of the United States.

### 39 ECONOMIC DEVELOPMENT

In the past, Mongolia operated on the basis of a planned economy, with five-year plans implemented from 1947 until 1990, with assistance from the former USSR and China. In 1990, with the establishment of a new consensus government, there followed a three-year plan that aimed for achieving greater efficiency in the allocation of resources and a diversified economic base by undertaking a sustained transition to a free market economy. The change was a fundamental shift, as the government relinquished its role as the primary factor in the economy and began limiting itself to policies supporting a market-oriented economy. Main components of the government's program include privatization of state enterprises, price liberalization, changes in national law, and an action plan for environmental protection. Current plans specify development of the country's energy and mining sectors, and further action in environmental protection as well as continued reforms in a number of areas including fiscal management, land tenure, and social benefit entitlements.

In 1996, the initial phase of privatization of state property was completed. According to the government, 100% of small- and medium-sized enterprises were privatized as well as 97% of the country's livestock. In 2000, the private sector accounted for 72% of GDP. At the end of the 1990s, however, the government's commitment to privatization and market reforms appeared to be weakening. However, the government that took office in August 2000 renewed the effort at gaining macroeconomic stability and restoring the momentum for reform. In September 2001, the administration entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF) supported by stand-by funds of SDR28.49 million (about \$40 million). In a 2002 review, the IMF commended the government on progress made to contain inflation, but noted that improvements were needed in fiscal transparency and accountability.

In July 2002, a pledge meeting of the Consultative Group (CG) for Mongolia, consisting of donors from 20 countries and 18 international organizations in addition to representatives of various civil and private organizations, agreed on the importance of the government's addressing governance issues: ensuring accountability, promoting transparency, controlling corruption,

reforming the judiciary and strengthening the rule of law. Priority areas of action stressed were energy and information and communications technology (ICT), as well as preparation of a long-term strategy for rural development. The donors pledged \$333 million in support of Mongolia's development efforts in 2003.

#### 40 SOCIAL DEVELOPMENT

The social insurance program provides for free medical services, benefits for temporary disability, and pensions for permanent disability and old age.

Women have equal rights and freedoms under Mongolian law, with the exception of a law barring them from hazardous work. Women account for approximately half of the work force, generally receive equal pay for equal work, and many hold mid-level government and professional jobs. Domestic abuse and violence remain serious problems.

Although the government generally respects the human rights of its citizens, there are reports of mistreatment of detainees and prisoners. Human rights organizations operate openly in Mongolia.

#### 41 HEALTH

Health care is administered under state auspices and all medical and hospital services are free. The government gives special priority to increasing the number of physicians and other health personnel and expanding facilities in rural areas. Each province has at least two hospitals and each agricultural cooperative and state farm has a medical station. As of 1999, there were an estimated 2.4 physicians and 11.5 hospital beds per 1,000 people. During 1990–95, most Mongolians had access to health services (95%). In 2000, 60% of the population had access to safe drinking water and 30% had adequate sanitation. Health expenditures were 4.7% of the GDP in 1990–97.

Average life expectancy in 2000 was an estimated 67 years (up from 45 years in 1950). Pulmonary and bronchial infections, including tuberculosis and brucellosis, are widespread but are being brought under control through the use of *ayrag*, an indigenous drink brewed from horse milk and possessing demonstrated healing qualities. Cholera, smallpox, typhus, and other epidemic diseases have been virtually eliminated. In 1990–94, immunization rates for children up to one year of age were as follows: tuberculosis, 90%; diphtheria, pertussis, and tetanus, 78%; polio, 87%; and measles, 80%. As of 1999, rates for DPT and measles were, respectively, 94% and 93%.

The general mortality rate was estimated at seven per 1,000 people as of 2002. In 2000 the infant mortality rate was 56 per 1,000 live births. At least 30.4% of children in 1996 had goiter. About 25% of children under five years of age were malnourished in 1999 and 11% of births were of low birth weight. Maternal mortality in 1995 was 65 per 100,000 live births. The total fertility rate decreased steadily from 5.4 in 1980 to 2.6 per woman in 1999.

As of 1999, the number of people living with HIV/AIDS was estimated at fewer than 100.

#### 42 HOUSING

Although there are many stone and wood buildings in Ulaanbaatar and some of the larger provincial centers, the traditional housing structure is the ger, a tent-like wooden frame structure covered in woolen felt. In 2000, about 51% of all households lived in gers; 25% lived in conventional permanent structure homes, and 22% lived in apartment buildings. Large apartment-house complexes with stores, services, and cultural facilities are being built in Ulaanbaatar, as well as in various other cities and towns. The average household has 4.3 people.

### 43 EDUCATION

Eight years of schooling is compulsory starting at age eight, and free of charge. Since the 1950s, the MPR has claimed that the entire adult population is literate; in 1995, however, UNESCO estimated the illiteracy rate at 10.9% for males and 21.9% for females.

After declining for years, average national enrollment in primary schools was 78% in 1994, and probably substantially lower in rural areas. Many children in rural areas are withdrawn from school in order to work at home. An absence of heat in many rural schools is also a problem that may contribute to poor enrollment levels. More than 70% of students from rural areas reside in dormitories adjoining the schools. Attendance at vocational schools declined sharply from 23,236 in 1985 to 7,480 in 1994.

School enrollment rose again by 1999, when 90% of primary-school-age children were enrolled in school, while 59% of those eligible attended secondary school. In 1997, there were 7,587 teachers and 234,193 pupils in primary schools. Student-to-teacher ratio stood at 31 to 1. In the same year, secondary schools had 13,171 teachers and 195,408 pupils.

The Mongolian State University, in Ulaanbaatar, was founded in 1942 and includes faculties in the social sciences, trade, and philology, as well as in science and technology. In 1998 all institutions of higher learning had a combined enrollment of 50,961, with 3,331 teachers.

The 1991 Education Law introduced a number of changes in the system. The traditional Mongolian script was to be introduced from the first grade, and teaching of English in all schools was made compulsory. Non-formal education offered by private institutions was also given due importance and recognition. While higher and professional education is not free, tuition fees for poor students are subsidized by the government. As of 1999, public expenditure on education was estimated at 6.2% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The Mongolian State University has a library of 350,000 volumes. The State Public Library, which is under the jurisdiction of the Academy of Sciences, contains three million volumes in Mongolian, Chinese, English, French, German, Manchu, Russian, Tibetan, and other languages. It also has a collection of valuable Buddhist manuscripts, including a 335-volume Buddhist encyclopedia. In 1991, the country opened a college of business and commerce, which houses a library of 21,000 volumes. Also that year, it opened the College of Economics with 40,000 volumes. The State Central Museum, containing art treasures and antiquities, the Museum of National History, the Ulaanbaatar Museum (a public affairs museum), the Fine Arts Museum, and the Museum of Religion, all in Ulaanbaatar, are under the jurisdiction of the Academy of Sciences. Also in the capital are the Mongolian National Modern Art Gallery, opened in 1989, and the Palace Museum, in the home of Bodg Geegen, former head of state and leader of the Buddhist Church of Mongolia.

#### 45 MEDIA

In 1999, there were 104,100 mainline telephones in use, with an additional 110,000 cellular phones in use in 2001. Radio broadcasting began in the MPR in 1934. Radio Ulaanbaatar broadcasts programs in Mongolian, Russian, Chinese, English, French, and Kazakh. Mongel Telev 12, which transmits locally produced programs, and a satellite station are also located in Ulaanbaatar. In 2001 there were 7 AM and 9 FM radio stations. As of 1999, there were four television stations. In 2000 there were 154 radios and 65 television sets for every 1,000 people. In 2001 Internet access was available through five service providers, with 30,000 subscribers that year.

The newspapers of the MPR (together with the organizations that publish them) include *Unen* (Central Committee of the MPRP, 1999 circulation 170,000); *Ardyn Erh* (Mongolian Great Hural and Cabinet, circulation 77,500); *Novosti Mongolii* (the Mongolian News Agency); *Hodolmor*, the organ of the trade unions; *Dzaluuchuudyn Unen* (Central Committee of the Mongolian Revolutionary Youth League); *Shine Hodo* (Ministry of Agriculture and the Supreme Council of the Federation of Agricultural Cooperatives); *Utga Dzobiol Uurlag* (the Union of Mongolian Writers and the Ministry of Culture); and *Ulaan Od* (Ministry of Defense and the Ministry of Public Security). Also published are 41 periodicals, including *Namyn Am'dral*, a journal of the Central Committee of the MPRP, and *Shinjleh Uhaan Am'dral*, a bimonthly publication of the Mongolian Academy of Sciences.

The constitution provides for freedom of expression, including free speech and a free press, and the government is said to respect these rights in practice.

#### 46 ORGANIZATIONS

Mongolia's mass organizations, all of which work closely with the MPRP, include the Mongolian Revolutionary Youth League (founded in 1922), Mongolian Pioneers' Organization, Committee of Mongolian Women (founded in 1933), and Mongolian-Soviet Friendship Society (founded in 1947).

Other youth organizations include the Union of Mongolian Students and the Scout Association of Mongolia. Another non-government women's organization is the Women's Information and Research Center.

Professional and cultural organizations include the Mongolia Academy of Science, the Union of Mongolian Artists, the Union of Mongolian Composers, the Mongolian Association for Lawyers, the Union of Mongolian Journalists, the Union of Mongolian Writers, and the Union of Mongolian Philatelists.

Social action organizations are the Mongolian Committee for Afro-Asian Solidarity, Mongolian Union for Peace and Friendship Organizations, and Mongolian Committee for the Defense of Peace. The Red Cross is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

In 2000, approximately 158,205 travelers visited the MPR from abroad. Despite the birth of multiparty democracy in the 1990s, Mongolia has not encouraged tourism. Tourist facilities are in short supply, and prices are high.

Points of interest include the Gandan Lamasery in Ulaanbaatar and the ruined city of Karakorum, once the capital of the Mongol Empire. Mongolia offers abundant and varied scenery, including forests, steppes, lakes, and deserts, and a wide variety of wildlife. Traditional sports in Mongolia include wrestling, archery, and horse racing.

The estimated cost of staying in Ulaanbaatar, according to the US Department of State, was \$183 per day in 2000. In small towns and villages, daily expenses are much lower, perhaps even less than \$50 per day.

#### 48 FAMOUS MONGOLIANS

A long line of Mongol khans have left their mark on history ever since Temujin, or Genghis Khan (1162–1227), set up the first Mongol empire in 1206. Outstanding among them were Kublai Khan (1216–94), a grandson of Genghis, who conquered most of

China; Hulagu Khan (1217–60), a brother of Kublai, who conquered Persia and Syria; Batu Khan (d.1255), Kublai's cousin, who overran Russia, Poland, and Hungary; Timur, also known as Timur Lenk ("Timur the Lame") or Tamerlane (1336?–1405), a descendant of Genghis, who extended his military power for short periods into southern Russia, India, and the Levant; and Babur (Zahir ad-Din Muhammad, 1483–1530), a descendant of Timur, who established an empire in India.

In recent times, two national leaders were Sukhe Baatar (1894–1923) and Khorloin Choybalsan (1895–1952). Yumjaagiin Tsendenbal (1916–1991), intermittently general secretary of the Central Committee of the MPRP since 1940, became chairman of the Council of Ministers in 1952, was elected chairman of the Presidium of the People's Great Hural in 1974, and was named the MPRP general secretary in 1981. Jambyn Batmunkh (b.1926) became chairman of the Council of Ministers in 1974 and was elected chairman of the Presidium and general secretary of the MPRP in 1984.

The founder of modern Mongolian literature is D. Natsagdorj (1906–37). Tsendyn Damdinsuren (b.1908) is one of the most important writers. Leading playwrights are Ch. Oydov (1917–63) and E. Oyuun (b.1918). Other prominent writers are B. Rindhen (1905–78), D. Namdag (b.1911), U. Ulambayar (b.1911), and Ch. Lodoydamba (1917–70). B. Damdinsuren (b.1919) and L. Murdorzh are noted composers. Jugderdemidiyn Gurragcha (b.1947) became the first Mongolian in space in 1981, when he was carried into orbit aboard the former USSR's *Soyuz 39*.

#### 49 DEPENDENCIES

The MPR has no territories or colonies.

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# MYANMAR

Union of Myanmar  
*Pyidaungzu Myanma Naingngandaw*

**CAPITAL:** Yangon (formerly Rangoon)

**FLAG:** The national flag is red with a blue canton, within which 14 white stars encircle a rice stalk and an industrial wheel.

**ANTHEM:** *Kaba Makye (Our Free Homeland)*.

**MONETARY UNIT:** The kyat (K) is a paper currency of 100 pyas. There are coins of 1, 5, 10, 25, and 50 pyas and 1 kyat, and notes of 1, 5, 10, 25, and 100 kyats. K1 = \$0.00125 (or \$1 = K800) as of May 2003.

**WEIGHTS AND MEASURES:** Both British and metric weights and measures are in general use, but local units also are employed.

**HOLIDAYS:** Independence Day, 4 January; Union Day, 12 February; Peasants' Day, 2 March; Defense Services Day, 27 March; Burmese New Year, 17 April; World Workers' Day, 1 May; Martyrs' Day, 19 July; Christmas, 25 December. Movable religious holidays include Full Moon of Tabaung, February or March; Thingyan (Water Festival), April; Full Moon of Kason, April or May; Waso (Beginning of Buddhist Lent), June or July; Thadingyut (End of Buddhist Lent), October; and Tazaungdaing, November.

**TIME:** 6:30 PM = noon GMT.

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

Situated in Southeast Asia, Myanmar has an area of 678,500 sq km (261,970 sq mi), extending 1,931 km (1,200 mi) N–S and 925 km (575 mi) E–W. Comparatively, the area occupied by Myanmar is slightly smaller than the state of Texas. It is bounded on the N and E by China, on the E by Laos, on the SE by Thailand, on the S by the Andaman Sea, and on the W by the Bay of Bengal, Bangladesh, and India, with a total boundary length of 7,806 km (4,850 mi), of which 1,930 km (1,197 mi) is coastline.

Myanmar's capital city, Yangon (formerly Rangoon), is located in the southern part of the country.

## <sup>2</sup>TOPOGRAPHY

Myanmar is divided into four topographic regions: a mountainous area in the north and west, ranging from about 1,830 to 6,100 m (6,000–20,000 ft) in altitude, and including the Arakan coastal strip between the Arakan Yoma mountain range and the Bay of Bengal; the Shan Highlands in the east, a deeply dissected plateau averaging 910 m (2,990 ft) in height and extending southward into the Tenasserim Yoma, a narrow strip of land that projects some 800 km (500 mi) along the Malay Peninsula, in the southeast; central Myanmar, a principal area of cultivation, bounded by the Salween River in the east and the Irrawaddy River and its tributary, the Chindwin, in the west; and the fertile delta and lower valley regions of the Irrawaddy and Sittang rivers in the south, covering an area of about 25,900 sq km (10,000 sq mi) and forming one of the world's great rice granaries. Good harbors are located along the coastline.

## <sup>3</sup>CLIMATE

Myanmar has a largely tropical climate with three seasons: the monsoon or rainy season, from May to October; the cool season, from November to February; and the hot season, generally from March to April. Rainfall during the monsoon season totals more than 500 cm (200 in) in upper Myanmar and over 250 cm (100 in) in lower Myanmar and Yangon (formerly Rangoon). Central Myanmar, called the dry zone, and Mandalay, the chief city in the

area, each receive about 76 cm (30 in). The mean annual temperature is 27°C (81°F); average daily temperatures in Yangon (Rangoon) range from 18° to 32°C (64–90°F) in January, during the cool season, and from 24° to 36°C (75–97°F) in April, during the hot season. The climate in upper Myanmar, particularly at altitudes ranging from about 300 to 1,220 m (1,000–4,000 ft), is the most temperate throughout the year, while lower Myanmar, especially in the delta and coastal regions, is the most humid.

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

Myanmar has a wide variety of plant and animal life. Teak, representing about 25% of the total forested area, thrives mainly in the mountainous regions; evergreen, bamboo, and palm in the freshwater delta swamps and along the coastlands; mangrove in the salty coastal marshes; mixed temperate forests and rolling grasslands in the Shan Highlands; and scrub vegetation in the dry central area. There are about 12 species of monkeys, as well as tigers, leopards, elephants, and half-wild pariah dogs. Fish abound along the coastline, in the tidal waters of the delta, and in the rivers and streams.

## <sup>5</sup>ENVIRONMENT

In Myanmar the principal environmental threat comes from cyclones and flooding during the monsoon season, and regular earthquakes. Deforestation for farming or illegal economic gain is the most persistent ecological effect of human encroachment. In 1985, 405 square miles were lost through deforestation. By 1994, two-thirds of Myanmar's tropical forests had been eliminated. However, the nation still had the world's eighth largest mangrove area, totaling approximately half a million hectares.

Little information is available about the long-term effects of industrialization on the natural environment, although evidence of industrial pollutants has been found in the air, water, soil, and food. Myanmar has 880.6 cubic kilometers of renewable water resources. Only about 89% of city dwellers and 66% of the rural population have pure water. Inadequate sanitation and water treatment are leading contributors to disease. Environmental concerns have been given low priority by the government.

Endangered species in Myanmar include the tiger, Asian elephant, Malayan tapir, Sumatran rhinoceros, Fea's muntjac, river terrapin, estuarine crocodile, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback). The Javan rhinoceros is extinct. Out of a total of 251 species of mammals, 31 are endangered; of 867 breeding bird species, 44 are endangered. Twenty reptiles in 203 species are threatened along with one type of freshwater fish. Myanmar also has 6 threatened species of plants in a total of 7,000. Threatened species include the banteng, pink-headed duck, freshwater sawfish, Sumatran rhinoceros, Siamese crocodile, hawksbill turtle, gaur, and sun bear.

## 6 POPULATION

The population of Burma in 2003 was estimated by the United Nations at 42,281,000, which placed it as number 28 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 33% 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 1.28%, with the projected population for the year 2015 at 55,762,000. The population density in 2002 was 72 per sq km (187 per sq mi).

It was estimated by the Population Reference Bureau that 28% of the population lived in urban areas in 2001. The capital city, Yangon, had a population of 4,101,000 in that year. The next largest city is Mandalay, numbering 532,985. According to the United Nations, the urban population growth rate for 2000–2005 was 2.9%.

## 7 MIGRATION

Indians were the most significant Asian minority in Myanmar until World War II, when hundreds of thousands fled the Japanese invasion; although many returned after the war, the Indian minority never regained its prewar proportions, because after independence in 1948 the government of Myanmar instituted rigid restrictions on Indian migration. The Indian population was substantially reduced between April 1963 and June 1965, when 100,000 were repatriated as part of a program to increase the wealth and holdings of Myanmar nationals. (Indians had dominated Myanmar's commerce.) The government has sought to curtail both immigration and emigration, although as many as 500,000 persons may have left Myanmar during 1962–71. About 187,000 Muslims who fled to Bangladesh in 1978 were repatriated with the help of UN agencies by the end of 1981; they had left Myanmar because of alleged atrocities by its soldiers in Arakan State. They lost their citizenship in 1982.

About 500,000 poor urban residents were forcibly relocated to rural areas between 1989 and 1992. Rural residents are also subject to forced resettlement in connection with counterinsurgency operations.

In 1992, 250,000 Muslim refugees from Myanmar's Northern Rakhine state began arriving in Bangladesh claiming human rights abuses in Myanmar. As of October 1996, around 50,000 of these refugees from were still living in South Bangladesh in five refugee camps. Between 1994 and 1997, some 230,000 of these refugees returned home to Northern Rakhine state. The repatriation resumed in November 1998, following meetings between the UNHCR and Myanmar authorities, but returns were limited to some 450 people due to procedural problems. UNHCR has appealed to the governments of Myanmar and Bangladesh to accelerate the repatriation process.

In 2000 the total number of migrants residing in Burma numbered 113,000. The net migration rate for that year was 0.1 per 1000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The Burmans, ethnically related to the Tibetans, constituted about 68% of Myanmar's total population in 1999. In remote times, the Burmans, migrants from the hills east of Tibet, descended the Irrawaddy Valley and intermarried with the previously settled Mon and Pyu peoples. Since then, however, many other migrant peoples from the northeast and northwest have settled in Myanmar: the Shans, Karens, Kachins, Kayahs, and Chins are among the more numerous. Although much ethnic fusion has taken place among these peoples and the Burmans, most of the later migrant groups remain distinct cultural entities, and have sought to preserve their autonomy, sometimes by violent means. As of 1999, the Shan made up about 9% of the population, the Karen 7%, Rakhine 4%, Chinese 3%, Mon 2%, Indian 2%, and other 5%.

## 9 LANGUAGES

Burmese, the official language, is spoken by at least 80% of the population. Pronunciation varies greatly from area to area. Although Burmese is monosyllabic and tonal like other Tibeto-Chinese languages, its alphabet of 10 vowels and 32 consonants is derived from the Pahlavi script of South India; loan words from other languages are common. Burmese is the language of government, but the ethnic minorities have their own languages; according to the 1974 constitution, "if necessary the language of the national race concerned may be used."

## 10 RELIGIONS

Under the government of U Nu (overthrown in 1962), Buddhism was the state religion. Since then the government has been controlled by authoritarian military regimes which have generally placed restrictions on religious freedom. Though the most recent constitution (1974) guarantees religious freedom, the government shows a preference for Theravada Buddhism, which according to government statistics is practiced by about 90% of the population. A number of adherents combine their practice with traditional practices such as astrology, numerology, fortune-telling, and the veneration of pre-Buddhist deities called *nats*.

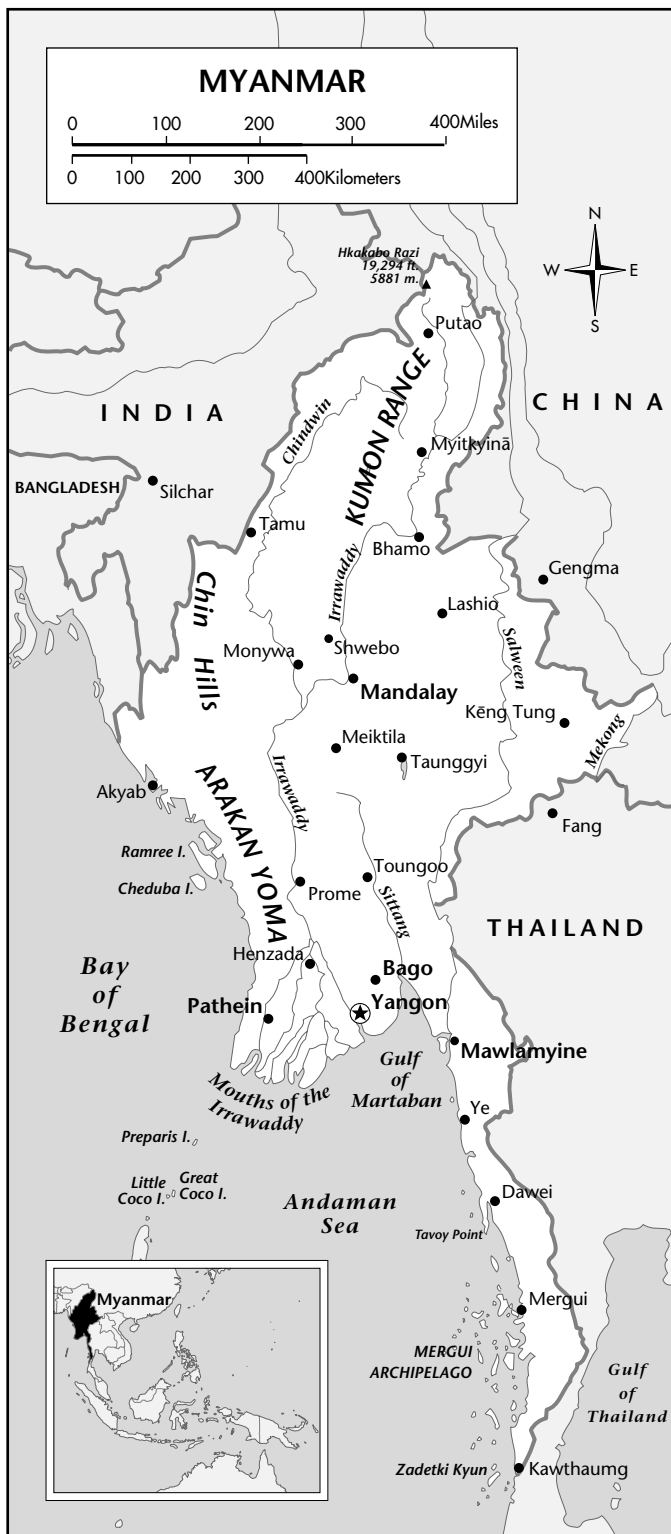
The Chinese in Myanmar practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, and ancestor worship; the Indians are Hindus; the Pakistanis are Muslims; and most of the Europeans are Christians. Although Christian missionaries had some success with peoples of the hill areas—the Karens, Kayahs, Kachins, and Chins—conversion among the Burmans and the Shans was negligible. About 4% of the population are Christian, with Baptists, Catholics, and Anglicans being the primary denominations. About 4% of the population are Muslim, mostly Sunni.

## 11 TRANSPORTATION

Because of Myanmar's near encirclement by mountain ranges, international land transportation is virtually nonexistent. Historically, Myanmar has been dependent on sea and river transport externally and internally, supplemented in modern times by the airplane. The Myanmar Road, connecting Lashio with Kunming in southern China, and the Ledo Road between Myitkyina and Ledo in Assam, northeastern India, are the only land ties between Myanmar and adjacent nations. There were an estimated 28,200 km (17,523 mi) of roads in 2002, but only 3,440 km (2,138 mi) were paved. In 2000, Myanmar had about 73,900 passenger cars and 49,300 commercial vehicles.

Myanmar's railway system, a government monopoly, operates 3,991 km (2,480 mi) of track, all of which is meter-gauge in 2002. The main lines are from Yangon (Rangoon) to Prome (259 km/161 mi) and from Yangon to Mandalay (621 km/386 mi) and then to Myitkyina (1,164 km/723 mi from the capital).





LOCATION: 92°10' to 101°11' E; 9°35' to 28°28' N. BOUNDARY LENGTHS: China, 2,185 kilometers (1,358 miles); Laos, 238 kilometers (148 miles); Thailand, 1,799 kilometers (1,118 miles); total coastline, 2,276 kilometers (1,414 miles); Bangladesh, 233 kilometers (145 miles); India, 1,403 kilometers (872 miles). TERRITORIAL SEA LIMIT: 12 miles.

Inland waterways, including some 12,800 km (7,954 mi) of navigable passages (25% of which are navigable by commercial vessels), are the key to internal transportation, partly compensating for limited railroad and highway development.

Some 500,000 small river craft ply the Irrawaddy (navigable for about 640 km/400 mi), the Salween, the Sittoung, and numerous tributaries. The Irrawaddy Delta, the focus of most water transportation, has some 2,700 km (1,700 mi) of rivers and streams, providing a seaboard for all types of craft. The state merchant fleet totaled 35 ships in 2002, with a combined GRT of 382,084.

Ocean shipping, the traditional means of external transport, is controlled by the government, which operates coastal and ocean-going freight-passenger lines. Yangon, on the Rangoon River about 34 km (21 mi) inland from the Andaman Sea, is the chief port for ocean shipping, handling the majority of the country's seaborne trade; it is also the principal terminus for the highways, railroad, inland waterways, and airways. Other ports include Sittwe (Akyab), serving western Myanmar; Patheingyi (Bassein), serving the delta area; and Mawlamyine (Moulmein), Dawei (Tavoy), and Mergui, which handle mineral and timber exports of the Tenasserim region.

As of 2001 there were 80 airports, 8 with paved runways. Mingaladon, outside of Yangon, is the principal airport. In 2001, 398,200 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The founding of a kingdom at Pagan in 1044 by Anawrahta marks the beginning of the history of Myanmar (Burma) as a distinct political entity. The kingdom survived until 1287, when it was destroyed by the armies of Kublai Khan, and the next five centuries were marked by disunity. In 1754, Alaungpaya defeated the Shan kingdom in northern Myanmar and the Mon kingdom in southern Myanmar and founded the last ruling dynasty, which was in power until the British came in the early 19th century. The British conquest of the land then known as Burma spanned 62 years: the first Anglo-Burmese War took place during 1824–26, when the British East India Company, acting for the crown, took possession of the Arakan and Tenasserim coastal regions. In 1852, at the end of the second war, the British acquired the remainder of lower Burma; and on 1 January 1886, following Burma's defeat in the third war, total annexation of Burma was proclaimed. Incorporated into the British Indian Empire, Burma was administered as a province of India until 1937, when it became a separate colony. At this time, Burma was permitted some steps toward self-government; however, the British governor retained authority over foreign affairs, defense, currency, and the administration of frontier peoples. From 1886 to 1948, many Burmese agitated and fought continually for independence. The nationalists who finally gained independence for Burma were a group of socialist-minded intellectuals, called the Thakins, from the University of Rangoon. They included Aung San, one of the founders of modern Burma; U Nu, independent Burma's first premier; Shu Maung, also known as Ne Win, later U Nu's chief of staff; and Than Tun, a leader of a Communist revolt (1948–50) against the independent government. At the start of World War II, these anti-British nationalists collaborated with the Japanese, and with the aid of the Burma Independence Army, led by Aung San, the capital, Rangoon (now Yangon) fell to Japan on 8 March 1943. They were soon disappointed with the Japanese occupation, however, and the Burma Independence Army was converted into an anti-Japanese guerrilla force called the Anti-Fascist People's Freedom League, which later assisted the British liberation of Burma. Many of the ethnic nationalities of the frontier regions, such as the Karens and Kachins, had remained loyal to the British, as valued fighters for the Allies. After the war, Aung San negotiated with frontier ethnic leaders, signing the Panglong Agreement on 12 February 1947 with them, as a pledge of autonomy and other rights.

Having assumed leadership of the nationalist movement following the 19 July 1947 assassination of Aung San and six of his associates, U Nu signed an agreement with British Prime Minister Clement Attlee covering economic and defense relationships between the two countries. On 4 January 1948, the sovereign Union of Burma came into being outside the Commonwealth of Nations. After severe setbacks in 1948–49, the U Nu government was able to control a Communist insurgency and consolidate its own power, and in 1951 the nation held its first parliamentary elections. The decade of the 1950s also brought the implementation of an ambitious land reform program and an attempt to forge a neutralist foreign policy, in the face of sporadic Communist resistance and an intermittent border dispute with China. U Nu appointed Gen. Ne Win to head an interim “caretaker government” during a period of instability from 1958 to the 1960 national election (which U Nu’s party won.) Ne Win returned to power with a coup d’état on 2 March 1962. The U Nu government was overthrown, and a military regime headed by a Revolutionary Council and led by Ne Win assumed control. Student protests following the 1962 coup, and again in 1974, were crushed by the army with many civilian casualties. Most major political figures in the democratic governments of the years 1948–62 were arrested but were released in 1966–68, including U Nu. Ne Win rejected a return to a multiparty parliamentary system and proclaimed the Socialist Republic of Burma on 3 January 1974. Under a new constitution, Ne Win became president, and the government continued to be dominated by the military. Ne Win retired as president in November 1981, with Gen. San Yu succeeding him in office; but Ne Win retained his dominance, as chairman of the country’s only legal political organization, the Burma Socialist Program Party (BSPP). Insurgency by the underground Communist Party of Burma (CPB) and numerous ethnic armies had begun just after World War II and continued throughout Ne Win’s time in power. The general sought to unify the country by giving it a Burmese-ethnic majority identity, and to defeat insurgency with the “four cuts policy” of taking civilian support away from the rebels. Instead, the tactics of his armed forces in ethnic regions drove more and more inhabitants into rebellion.

Despite President San Yu’s reelection in 1985 to a four-year term and his appointment as vice-chairman of the BSPP, Ne Win continued to dominate the political scene and to make all major and many minor government policy decisions. One such decision, to withdraw large currency notes from circulation in September 1987, threw the economy and the country into turmoil. The move, possibly aimed against black marketers who had accumulated large sums of money, made 80% of the country’s currency valueless, touching off student-led demonstrations. Citing his personal responsibility for dire economic conditions, Ne Win resigned as BSPP party chairman in July 1988. A protégé of Ne Win, Sein Lwin, was made BSPP chairman and president of the country. Sein Lwin’s appointment triggered nationwide revolts. A broad spectrum of the population joined in, marching in the streets and going on general strikes throughout Burma. The army opened fire on unarmed protesters, killing thousands, particularly during the first week of August. Sein Lwin resigned on 12 August and Dr. Maung Maung, a civilian lawyer and journalist, was appointed his successor on 19 August. Although Maung Maung proposed multiparty elections and decreed that government employees could not be members of any political party, his refusal to step down provoked further protests. On 18 September 1988 the army abolished the BSPP, took over the government and imposed military rule under the State Law and Order Restoration Council (SLORC) headed by the army Chief of Staff, General Saw Maung. He also named himself prime minister and retained the portfolios of the Defense Ministry and Ministry of Foreign Affairs. Several days of violence occurred countrywide with thousands of civilians, including children,

students, and monks, killed by the armed forces. In announcing the takeover, General Saw Maung stated that the military rule would be temporary and that multiparty elections would be held once law and order were reestablished. In February 1989 Japan was the first nation to officially recognize SLORC as the legitimate government. Elections were set for 27 May 1990. On 18 June 1989 the Saw Maung regime renamed Burma “Myanmar Naing Ngan,” a formal historical Burmese name for the country. It is colloquially known as “Myanmar,” while democracy advocates and the US government continue to use the name “Burma.”

With the elections called, political parties formed. First to organize was U Nu’s League for Democracy and Peace, later known as the League for Democracy. The BSPP was reformed as the pre-regime National Union Party (NUP). U Nu had declared an interim government on 9 September 1988, but he garnered little support with his surprise move. In 1988 Aung San Suu Kyi, daughter of assassinated legendary hero General Aung San, had returned to Myanmar to visit her ailing mother. In the midst of the chaos of this period of demonstrations and protests Aung San Suu Kyi rose to prominence delivering speeches and establishing a coalition party opposing the military regime. On 24 September 1988 Suu Kyi with U Tin Oo and Aung Gyi formed the National League for Democracy (NLD). In early 1989 Aung Gyi formed his own organization, the Union Nationals Democracy Party (UNDP). In speeches and interviews Suu Kyi challenged Ne Win’s record, characterizing it as one of economic and sociopolitical degeneration. She also protested SLORC’s repressive laws and actions. Aung San Suu Kyi was placed under house arrest in Yangon (Rangoon) by Ne Win on 20 July 1989.

The top contenders in the elections were the NUP, the NLD, the UNDP, and the League for Democracy. The NUP was the party favored by the SLORC; and other parties had immense difficulty in campaigning and obtaining publicity. Six other parties figured prominently: the Coalition League for Democratic Multi-Party Unity; the Democracy Party; the Union of Burma Main AFPFL Party led by the children of former Premier U Ba Swe; the Democratic National Front for National Reconstruction, a former leftist NUF group; the Graduates and Old Students Democratic Association; and the Original Anti-Fascist People’s Freedom League. A total of 93 parties fielded 2,209 candidates who, along with 87 independent candidates, contested 485 seats out of a total of 492 constituencies designated for holding elections. Seven constituencies that were excluded from the election represented mostly the ethnic minority states of insurgency. Over 100 candidates were fielded by each of five parties: The National League for Democracy (NLD), 447 candidates; the National Unity Party (NUP) backed by SLORC, 413 candidates; the League for Democracy and Peace (LDP), 309 candidates (another source indicates 325 candidates); the Union Nationals Democracy Party (UNDP), 247 candidates (another source indicates 270 candidates), and the Democracy Party, 105 candidates. Despite its leader’s (Aung San Suu Kyi) incommunicado house arrest, the NLD won the 27 May 1990 general elections by a landslide (392 candidates elected out of its field of 447, or 87.7% of the votes). The NUP took 2.4% of the votes for 10 seats out of 413 fielded. The UNDP, with 0.4% of the vote, took 1 seat in Shan State out of the 247 (270) fielded. The Democracy Party with 0.95% of the vote took 1 seat out of 105 fielded. Of the candidates fielded by the LDP none won a seat. On 18 June 1989 Saw Maung indicated that the transfer of power to the winner of the election would not occur until a new constitution was drafted, one which met with SLORC’s approval. However, on 13 July the powerful junta member Lt.-General Khin Nyunt denied the initial promise of an immediate transfer of power made by General Saw Maung. SLORC’s further response was to alter the purpose of the newly elected assembly from its original function as a legislative body, to that of a constituent

assembly formed to draft the new constitution. SLORC would not transfer power until the resulting draft constitution had been approved both by a referendum and by SLORC.

### 1990–Present

In September 1990 SLORC revealed its intention to remain in power for a further five to ten years. After his mental collapse in December 1991, Senior General Saw Maung resigned due to ill health on 23 April 1992. On the same day he was replaced as Chairman of SLORC by General Than Shwe who was also named (and remains) Chief of State and Head of the Government. The First Secretary was Lt.-General Khin Nyunt and Second Secretary was Lt.-General Tin Oo. Accompanying these leadership changes SLORC initially indicated that an effort was being made to appease criticism of its methods as hundreds of political prisoners were released. Aung San Suu Kyi's family was allowed to visit her. Two martial law decrees imposed in July 1989 also were lifted in September 1992, and a constitutional convention was promised. In early 1993 a National Convention of 700 mostly hand-picked members met to draft a new constitution. Meeting with resistance and presented with a proposal by Yo E La of the Lahu National Development Party suggesting a return to the basic principles of Myanmar's pre-1962 constitution, a bicameral parliament and the granting of basic freedoms, the convention was adjourned until 7 June 1993. Another impasse occurred with further resistance to certain clauses in the new constitution that the ruling military wanted implemented; the National Convention was adjourned until January 1994. On 18 January 1994 the convention met again to approve six objectives and 104 basic principles which would entrench and perpetuate the power of the military.

The plight of Aung San Suu Kyi garnered the attention of human rights groups internationally. In March 1991, the Geneva UN Human Rights Commission passed a resolution to condemn and monitor the human rights abuses of SLORC, and in subsequent years Special Rapporteurs have been appointed to investigate Myanmar's human rights situation. In 1991 Aung San Suu Kyi was awarded the 1990 Sakharov Prize for Freedom of Thought by the European Parliament, the 1990 Thorolf Rafto Human Rights Prize by Norway, and on 10 December 1991 Aung San Suu Kyi's son, Alexander, accepted the 1991 Nobel Peace Prize on her behalf. In December 1993 the UN General Assembly unanimously rebuked the military rulers of Myanmar for their refusal to hand over power to the parliament democratically elected in May 1990, and called for the release of political prisoners, including Aung San Suu Kyi, in her fifth year of house arrest. Eight fellow Nobel prize-winners met in Thailand in February 1993 to speak on behalf of Aung San Suu Kyi, but were denied visas to visit Myanmar. US Congressman William Richardson visited with Aung San Suu Kyi, who was still under house arrest in Yangon, on 14–15 February 1994, her first non-family visit in four-and-a-half years. Richardson also met with Lieutenant-General Khin Nyunt of the State Law and Order Restoration Council (SLORC).

Another dissenting voice in Myanmar, that of 74-year-old Aung Gyi, founder of the UNDP, was silenced when on 27 April 1993 he was sentenced to a six-month prison term. He had written a series of letters to Ne Win (much as he had paved the way for the pro-democracy movement in 1987–88 with a similar series of letters), and criticized the military regime in interviews with foreign journalists, but was convicted for failing to pay for eggs ordered as supplies for his tea and pastry shops. A type of human rights violation in Myanmar which drew international attention was forced labor, which the government used on tourist projects such as the reconstruction of the palace in Mandalay. Of Mandalay's 500,000 residents each family had to contribute at least three days of free labor each month. The work lasted from dawn until evening and was so strenuous that it took several days

to recover from it. Prison inmates were required to work every day. Many military families could be exempted, as could any family that agreed to pay a monthly fine of about us\$6, about a week's wages for some families. Forced labor was also used on a vast scale throughout Myanmar, on many building projects including roads and railroads, as well as for carrying supplies and munitions for the SLORC troops in insurgent areas. According to the testimony of escapees, the labor was accompanied by beatings, rape, execution of the ill or slow, and use of civilians as human shields and human mine-detectors. Muslim refugees who fled Myanmar said that Muslims had to pay two to three times as much as others to retain their rice ration card as a fine to escape labor. The SLORC commonly used euphemisms such as "merit-making" or "self reliance" in reference to the forced labor. Asia Watch also reported in 1994 that the government turned a "blind eye to traffic in women and girls from Myanmar to Thailand for forced-prostitution." Corrupt officials on both sides of the border were involved. It was estimated that there were about 20,000 women from Myanmar in Thai brothels, where they were at severe risk of HIV/AIDS infection.

A casualty of the China-Myanmar border agreement of 1988 was the Communist Party of Burma (CPB) which collapsed with the withdrawal of Chinese support and the mutiny of its Wa troops in 1989. The CPB split into four different ethnic armies. SLORC's main objective was to neutralize the border rebel minorities and to prevent urban dissidents from getting access to arms and ammunition. SLORC's strategy was to divide and rule. Karen National Union President Bo Mya held that guerilla armies should hold joint talks with the government and not negotiate separately. The junta, however, would only negotiate separate agreements or treaties with individual rebel groups. To achieve its objectives SLORC introduced its Border Areas Development Program into ex-CPB areas. Infrastructure improvements of US\$11.1 million in roads, bridges, schools, and hospitals were pledged in the state-run media. Necessities such as diesel, petrol, kerosene and rice were distributed. The Wa were the first to negotiate with the junta. In 1989 they were promised development assistance, were allowed to retain their arms, maintain control of their areas, and to engage in any kind of business. In exchange they promised not to attack government forces and to sever their ties with the other dissident groups and students. Throughout the 1990s the cease-fired Wa complained from time to time that little of the promised aid had been delivered, and that their demand to create a separate state was never discussed. The next deal was made with the 2,000-member Shan State Army (SSA), one of the Shan rebel factions, on 2 September 1989. The SSA was followed in December 1990 by a breakaway faction of the Kachin Independence Army (KIA). On 23 April 1991 the 600-member Palaung State Liberation Army made a truce with SLORC. The 500-member Pa-O National Army rebel group also signed a peace treaty with the military regime. Accusations were leveled that the smaller forces were pushed into signing accords by the unremitting abuse of their ethnic civilians by SLORC troops. The Tatmadaw, the SLORC's armed force, had increased its own troop strength from approximately 190,000 to well over 300,000 since the suppression of 1988's pro-democracy uprising.

The Karenni rebels, angry over SLORC logging encroachments in their territory, reversed their cease-fire, in September 1992. The government launched a major counter attack on the Karenni that spilled over the Thai border. Since 1984 the rebel Karen National Union (KNU) had its camps near the Thai border; and tens of thousands of Karen civilians fled from SLORC attacks and forced labor, to the Thai side. Manerplaw was the KNU headquarters and also the seat of the National Coalition Government of the Union of Burma (NCGUB), set up by fugitive members of National League for Democracy and other pro-

democracy Members of Parliament elected in the thwarted 1990 polls.

Far to the north, the Kachins who had been in rebellion since 1961, had been the largest military group in a coalition of anti-SLORC ethnic forces. On 24 February 1994 the Kachin Independence Organization (KIO) signed a peace treaty with SLORC. They agreed to a cease-fire in exchange for permission to participate in commerce. Conflict between the SLORC and Shan groups continued. The Mong Tai Army (MTA) of the notorious "opium warlord" Khun Sa fought the Tatmadaw in the mid-1990s, then made a surprise surrender. He was able to spend his "retirement" living in comfort in Yangon (Rangoon). Like another rehabilitated drug lord, Lo Hsing Han, he has engaged in various legitimate business ventures, giving rise to charges of large-scale narcotics money laundering involvement on the part of the *junta*. Cease-fired Wa officers, from Myanmar's primary opium/heroin production region, are also said to have legitimate business access in Yangon and Mandalay. Some factions of the SSA refused to sign truces with SLORC, and joined in shifting alliances with anti-cess-fire factions of the MTA, continuing to battle the Tatmadaw. In response to Shan and Karenni defiance of the cease-fire policy, the SLORC engaged in enormous forced village relocations in those regions.

Ethnic peoples of western Burma also suffered. The Muslim residents of Arakan, called the Rohingyas, became refugees en masse in the early 1990s. Previously in 1978 the Burmese government had denied them citizenship and launched Operation Naga Min (Dragon King) forcing over 200,000 Rohingyas to seek refuge in Bangladesh. This pattern was repeated in 1991-92. The Rohingyas whose history in the area went as far back as the 9-15th centuries when Moorish, Arab, and Persian traders arrived and married local women and settled in the area, were displaced from their land and homes. As many as 300,000 Rohingyas fled to Bangladesh when they were forced from their land, their belongings were confiscated and women were raped by government troops. Some co-religionists made statements of protest, but ASEAN offered a policy of "constructive engagement" thus resisting pressures by the United States and European Community (EC) to adopt a stand on human rights abuses. According to this regional attitude, taking a stand would amount to interference in the internal affairs of a neighboring country. The countries of the region for the most part entered into "constructive engagement" with SLORC, gaining trade and investment opportunities, thus altering the status of the Myanmar exiles and refugees within their borders.

The international community has continued to debate the most effective approach for dealing with Myanmar. Up to and following Myanmar's acceptance into ASEAN in July 1997, ASEAN countries and Japan have argued that "engaging" Myanmar is more productive than "isolating" it. This approach gained them controversial timber concessions, energy projects, and some tourism plus manufacturing opportunities. It did not inspire liberalization by the *junta*. The United States and European Union (EU) have imposed limited economic sanctions, but allowed their petroleum corporations to remain in Myanmar as major investors. Proposals by groups of nations to offer Myanmar's generals economic rewards for steps toward liberalization have been rejected by the *junta* as "bribery." Aung San Suu Kyi's NLD continues to call for strong economic sanctions as the best way to pressure the *junta* to the negotiation table, and to deprive the Tatmadaw of the weapons it buys with hard currency (mainly from China and Singapore). The NLD has called for a tourism boycott and for withdrawal of foreign corporations until democracy arrives.

SLORC released Aung San Suu Kyi from house arrest on 10 July 1995. Her freedom was short-lived, however. After large crowds of people began gathering in front of her house for weekly speeches, she was forbidden to address such gatherings. In

November 1995, the NLD withdrew from the National Convention which was to formulate a SLORC-approved constitution, in protest of undemocratic policies; in turn SLORC permanently barred the NLD from participation and eventually the Convention meetings were suspended. Suu Kyi announced in May 1996 the NLD's plan to draft its version of the constitution, one that would oust the *junta* and implement new economic policies for the country.

SLORC curtailed Suu Kyi's attempts at movement outside of Yangon, which she protested with car sit-ins in 1998. NLD members have been detained by the hundreds, and many publicly renounced their membership. The Union Solidarity Defense Association (USDA) was formed by SLORC as a "mass organization" modeled after Sukarno's Golkar in Indonesia. It staged rallies denouncing the NLD, and Suu Kyi was physically threatened by some of its members. A steady campaign of insults against Suu Kyi was featured in the state-run press. In 1999, Suu Kyi's terminally ill British husband, Michael Aris, was denied a visa to see her one last time. The *junta* stated that she was free to leave Myanmar, but the implication was that she would not be permitted back. Aris died on 27 March. Student demonstrations took place in 1996, and institutions of higher learning were closed down by SLORC. Most universities and colleges remained shut down the majority of the time since 1988 (although as of 2000 some were reopening). Attempts by student activists to mark the tenth anniversary of the "four eights" (8-8-88) democracy uprising, and another auspicious date, 9-9-99, were quickly suppressed. Long jail sentences have been handed down for even mild forms of public protest, and human rights groups report that torture of student dissidents is routine in Myanmar's prisons. Min Ko Naing, an important leader of the 1988 demonstrations, remains in prison. Leo Nichols, an honorary consul for European nations, died in a Myanmar prison, where he was held for unauthorized possession of a fax machine. As the *junta* attempts to control information, Internet access is extremely limited and unauthorized possession of a modem can earn a 17 year prison sentence.

Using a Buddhist breakaway Karen faction, the Democratic Karen Buddhist Army (DKBA), against the Christian-led KNU, the Tatmadaw was able to over-run Manerplaw and destroy most of the Karen rebel bases in 1995. Tatmadaw and DKBA troops entered Thailand in late January 1997 and attacked Karen refugee camps. A highly controversial natural gas pipeline across the region of southern Burma called the Tenasserim apparently inspired SLORC military campaigns against Mon and Karen rebels in that area. The Mon rebels signed a cease-fire agreement, but numerous Tatmadaw battalions were brought in to protect the pipeline project from Karen sabotage. The multinational petroleum companies involved, Total of France and Unocal from the United States, were accused by human rights and environmental groups of complicity in human rights violations, including forced labor and forced relocation, committed by the SLORC's security forces. Victims of such abuses sued Unocal in a groundbreaking US court case. The pipeline began bringing natural gas from Myanmar's Andaman Sea to an electrical generating plant on the Thai side of the border in 1999. Outside economic pressure built up during the 1990s, in the form of consumer boycotts of companies doing business in Myanmar, limited US economic sanctions, and "selective purchasing" laws by cities. Massachusetts' "Burma selective purchasing law" was brought to the Supreme Court in 2000. By that year, foreign investment in Myanmar had decreased markedly, due to sanctions pressures, the Asian economic crisis, and concerns about corruption in the State Peace and Development Council (SLORC was renamed the SPDC in 1997)-controlled economy. In June 1999, the International Labor Organization of the UN essentially expelled Myanmar from its ranks, following a detailed investigation of forced labor under the SPDC. In early 2000, the

World Bank issued a report highly critical of Myanmar's economic and political climate. The World Bank and International Monetary Fund have been barred from lending to Myanmar.

The Myanmar government has also come under considerable international criticism for its complicity in the country's massive drug trade. Myanmar is one of the world's largest producers of opium and heroin. Since 1990, the country has also become one of the largest manufacturers of illicit methamphetamine. Thai officials voiced dismay over the flood of "speed" pills into Thailand from Myanmar (particularly the Wa region, where a cease-fire is in effect) and the seeming callousness of the Myanmar government regarding the drug trade. Myanmar is the main source of heroin in China, where addiction grew seven-fold from 1989 to 1997. A 1999 Interpol conference on narcotic suppression, held in Yangon, was boycotted by the United States and other governments as a protest against the junta's apparent profiting from drug trafficking.

With burgeoning drug production in the north of Myanmar has also come a raging HIV/AIDS epidemic. International health organizations estimated the number of Burmese infected in the north alone at 350,000–400,000 in 1996. The HIV/AIDS virus has spread unchecked in Myanmar through the use of contaminated needles by drug addicts, by unsafe medical practices, and by infected Burmese women returning from forced prostitution in Thailand. AIDS education, prevention, and care programs have been a low priority in Myanmar.

Aung San Suu Kyi was again placed under house detention in September 2000; she was released in May 2002, and toured the country, speaking out in support of democratization. She urged the international community in August to keep economic sanctions against the SPDC in place until a democratic dialogue reached a more meaningful stage. During 2001, over 200 NLD activists were released from detention; in November 2002, another 115 political prisoners were released.

During 2001 and 2002, relations between Myanmar and Thailand improved. The two countries held talks in June 2001, attempting to ameliorate disagreements over the drug trade and border tensions. By September, Myanmar pledged to eliminate drug trade in the Golden Triangle by 2005. Thailand committed funds to finance a crop substitution program, and the two countries regarded themselves as good neighbors. However, in May 2002, Myanmar closed its border with Thailand after the Thai army fired shells into Myanmar's territory during a battle between the SPDC and ethnic Shan rebels. The border was reopened in October. In December 2000, Amnesty International reported that torture was increasing in Myanmar despite official military statements that it is illegal. In November 2001, the International Labour Organization (ILO) sent a mission to Myanmar to investigate governmental measures taken to end its program of forced labor. The mission reported some progress, but expressed "profound concern" that the governmental measures had had a limited impact. On 12 February 2003, the UN marked the anniversary of the entry into force of an international treaty banning child soldiers, but warned that the problem of child soldiers is still prevalent. In Myanmar, an estimated 70,000 children are in uniform in the state army. Many are forcibly conscripted by kidnapping or threats of prison at ages as young as 11.

In January 2003, fighting broke out near the Thai border between the Karen National Union (KNU) and SPDC forces, which launched an offensive against the KNU. Over 700 Karen villagers and 400 Thai villagers fled their homes to escape the fighting, and sought refuge in Thailand.

On 5 December 2002, General Ne Win died under house arrest. He had been arrested in March for plotting a coup against the military regime. Ne Win's three grandsons and son-in-law are in jail, sentenced to death for their plot in the supposed coup.

## 13 GOVERNMENT

The Socialist Republic of the Union of Burma was announced on 3 January 1974, after a new basic law had been approved by plebiscite. Under the 1974 constitution (which was suspended in September 1988), the leading organ of state power was the 489-member unicameral People's Assembly (Pyithu Hluttaw). The head of state was the chairman of the Council of State (29 members in 1986), which was elected by the People's Assembly and theoretically responsible to it. The prime minister headed the Council of Ministers (24 members in 1986) and also served on the Council of State. Other main governmental organs were the Council of People's Justices (9 members), the Council of People's Attorneys (6), the Council of People's Inspectors (6), and the people's councils at the level of the state (or division), township, and ward or village tract. Nationwide legislative elections were held in 1974, 1978, 1981, and 1985; in each election, voters either accepted or rejected candidates from a single slate presented by the ruling Burma Socialist Program Party (BSPP). Suffrage is universal at age 18, although the military has taken measures to discourage voter registration. A military coup in September 1988 brought the State Law and Order Restoration Council (SLORC) to power. SLORC abolished the previous government and placed the country under martial law. In June 1989, the official title of the country was changed to Myanmar Naing Ngan. The SLORC *junta* supervised and coordinated the work of the central and local organs of state power. It renamed itself the State Peace and Development Council (SPDC) in November 1997.

In the multi-party election held 27 May 1990, Aung San Suu Kyi's National League for Democracy (NLD) received 87.7% of the total vote and took 392 of its 447 contested seats, and the National Unity Party (NUP), the former BSPP re-registered as a new party, took only 10 seats with 2.4% of the votes.

SLORC refused to hand over power to the NLD, instead voiding the election and insisting that a new constitution need be drafted and approved by referendum, and by SLORC, prior to the transfer of power. Senior General Saw Maung resigned due to ill health on 23 April 1992 and General Than Shwe replaced him on the same day as Chairman of SLORC and as Chief of State and Head of the Government. Vice-chairman of the SPDC is General Maung Aye. The Foreign Minister is Win Aung, and the Home Affairs Minister is Tin Hlaing. Lt. Gen. Tin Oo, former second secretary of the SPDC and chief of staff of the army, died in a helicopter crash 19 February 2002. The other two "secretaries" of the SPDC are Lt.-General Khin Nyunt and Lt.-General Win Myint. Some observers have noted possible tensions among the top generals. Tin Oo's death will likely accelerate the factional struggle within the SPDC as the more liberal factions see an opportunity to acquire some of the conservatives' waning power.

## 14 POLITICAL PARTIES

Between 1948 and 1962, Burma's parties were mostly socialist in economic orientation. The most important of these was the Anti-Fascist People's Freedom League (AFPFL), which gained independence for the country and which included within its ranks the distinct Burma Socialist Program Party. The AFPFL governed the country from 1948. In 1958, tensions within the government, and insurgency in the countryside, prompted Prime Minister U Nu to temporarily hand over power to a "caretaker" government headed by General Ne Win. When U Nu's new Union Party won a landslide victory in 1960 elections, Ne Win relinquished power to him. Then on 2 March 1962, Ne Win staged a coup d'état and began his long rule with the one-party (Burma Socialist Program Party) state.

Other parties before 1962 included two Communist movements, the "White Flags" and the "Red Flags," both of

which took up arms early after independence and were later defeated by the government (the White Flags, however, were not completely eradicated until 1975). An above-ground Communist Party existed after 1949 and became the nucleus of the National United Front (NUF) in 1952. Both the Communists and the NUF, like all other parties except the ruling military-dominated Burma Socialist Program Party (BSPP), were banned in 1974. The well-armed Communist Party of Burma (CPB) insurgents based themselves primarily in northeast Burma, along the China border. Chinese support for the Communist party of Burma (CPB) continued well after support for the Communist parties of Malaysia and Thailand was withdrawn, but from the mid-1980s aid did not compare with a decade earlier. In 1989 the CPB was overthrown by its troops, many of whom regrouped as the United Wa State Army, which soon signed a cease-fire deal with the State Law and Order Restoration Council (SLORC).

Burmese independence leader General Aung San had negotiated the Panglong Agreement with representatives of frontier ethnic groups in 1947, but issues of autonomy and federalism have never been resolved. Numerous ethnic parties with armed wings were formed in the mid- to late-twentieth century, including the Karen National Union, Kachin Independence Organization, New Mon State Party, Karenni National Progressive Party, Shan State Progress Party, Arakan Liberation Party, and Chin National Front. Umbrella groups of the ethnic insurgents were established, notably the National Democratic Front, followed by the Democratic Alliance of Burma. In the 1990s, many ethnic organizations signed cease-fire agreements with the SLORC. A continuous demand of the opposition is "tri-partite negotiations" between the SLORC/SPDC junta, Aung San Suu Kyi's National League for Democracy, and representatives of the ethnic groups. Most of the ethnic leaders favor a federal union of Burma based on ethnic regions.

The democracy uprising of 1988 ended with the 18 September coup which installed the military officers of the State Law and Order Restoration Council (SLORC). The Burma Socialist Program Party was formally abolished, and all governing authority was concentrated in the hands of the military. The earliest formation of the State Law and Order Restoration Council (SLORC) was made up of seventeen active military commanders of the Defense Services. On 18 September 1988 it was renamed the Organization for Building Law and Order in the State (OBLOS) and two more members were added. On 20 September 1988 the final version of the SLORC government was formed by maintaining the 19 members and adding two non-members to the Cabinet, increasing the number of Cabinet ministers from seven to nine. On 24 September 1988 the BSPP was reborn as the National Unity Party (NUP), inheriting the buildings and machinery of the old BSPP. Allied to the NUP were satellite parties, the former supporters of the BSPP.

On 24 September 1988 the National League for Democracy (NLD), a coalition party, was formed in opposition to the military regime. Leaders Aung San Suu Kyi and Aung Gyi soon parted ways over the latter's accusations of communist infiltration of the NLD. On 28 August 1988 U Nu at age 83, with his followers from the older generation formed the League for Democracy and Peace (LDP), latter known as the League for Democracy. The NLD won the 27 May 1990 elections by a landslide, electing 392 candidates; the NUP took 10 seats; the UNDP and the Democracy Party took 1 seat each; and the LDP did not win any seats. In April/May 1991 the Election Commission dropped the names of the NLD's General Secretary Aung San Suu Kyi and President U Tin Oo from a roster of NLD leaders, as well as the names of all other Central Executive Committee members who were jailed. NLD leader Aung San Suu Kyi was placed under house arrest from 20 July 1989 to 10 July 1995, and again from 2 September 2000 to 6 May 2002. NLD members have been detained and imprisoned in ever-increasing

numbers, and many have been pressured to renounce their membership at public rallies of the junta-sponsored Union Solidarity Defense Association (USDA) a mass organization formed in September 1993 to support the ruling military.

Dr. Sein Win of the Party for National Democracy, winner of a seat in Pegu District, and seven NLD members legitimately elected to parliament but not recognized by SLORC, fled to border areas and formed a parallel government, the National Coalition Government Union of Burma (NCGUB). Sein Win was named prime minister of the NCGUB, which is now headquartered in Washington, D.C., where it serves as a diplomatic vehicle for the international exiled Burmese democracy movement.

On 29 January 1992 SLORC appointed additional ministers, mostly serving or ex-military, to the original nine-member cabinet, and three new military commanders were added to the original nineteen-member SLORC. Senior General Saw Maung resigned due to ill health on 23 April 1992. He was replaced as Chairman of SLORC by General Than Shwe on 23 April 1992. Than Shwe was named Chief of State and Head of the Government. First Secretary is Major-General Khin Nyunt and Second Secretary was Major-General Tin Oo, until his death in a helicopter crash in February 2002. Lt.-Gen. Win Myint is the other secretary of the SPDC. The SLORC changed its name to State Peace and Development Council (SPDC) in November 1997. The National Convention, aimed at drafting a new constitution has been suspended, and the NLD withdrew from the process in protest at its being used to legitimize the junta. Other parties have objected to the National Convention's insensitivity to ethnic rights issues.

## 15 LOCAL GOVERNMENT

Myanmar is a unitary nation, ruled by a military *junta*, comprising seven states and seven divisions. The main distinction between the two kinds of units, which are functionally the same, is that the states represent an area where a national ethnic minority is the local majority, while the divisions have no such communal basis. The states are Arakan (Rakhine), Chin, Kachin, Karen (Kayin), Kayah, Mon, and Shan. The divisions are Irrawaddy, Magwe, Mandalay, Bago (Pegu), Sagaing, Yangon (Rangoon), and Tenasserim. States and divisions are segmented into 317 townships. Village tracts consist of villages, and towns are divided into wards. Law and Order Restoration Councils (LORCs) serve as local administration, although regional army commanders control the actual decision making process. A LORC was formed for each State, Division, Township Sector and Ward/Village Sector. Military campaigns of forced village relocations, especially in the Shan and Karenni states and Tenasserim Division, have changed the rural map of Myanmar and placed much of the agricultural population under direct army control. In some frontier areas where cease-fire groups (such as the UWSA or KIO) still hold significant territory, administration is by the former insurgent leadership.

## 16 JUDICIAL SYSTEM

The British-style judicial organs with which Burma began its independence, including a supreme court, were disbanded by Ne Win's Revolutionary Council. The 1974 constitution, suspended since 1988, provided for a Council of People's Justices, state and divisional judges' committees, and township, ward, and village tract judges' committees. The Council of People's Justices was elected by the national assembly from among its own members; nominations were made by the Council of State, which coordinated relations between central and local levels of government. Military tribunals which enforced orders issued by the State Law and Order Restoration Council (SLORC) were abolished in 1992. Ordinary courts now handle such cases, with heavy military influence. The supreme court appoints judges after

approval of the SPDC. There are courts at the township, district, state, and national levels. The SPDC has used laws such as the Emergency Provisions Act and the Unlawful Associations Act to crack down on dissent. Human rights organizations such as Amnesty International and the United Nations have criticized the SPDC for unfair trials and arbitrary imprisonment, as well as use of torture and summary execution.

## 17 ARMED FORCES

The armed forces play the major role in Myanmar's politics and administration; senior members of the government are officers who govern under martial law.

Myanmar's armed forces totaled an estimated 444,000 in 2002 including the paramilitary people's militia and people's police force. The army, with 325,000 personnel, was organized in infantry battalions chiefly for internal security duties, mainly against the various insurgent groups that have challenged successive governments almost from the start of independence. The army was equipped with 100 main battle tanks. The navy had 10,000 members, and the air force 9,000. The navy's responsibilities related primarily to antismuggling and other coastal patrol duties operating 73 patrol and coastal combatants. The air force was also concerned mainly with internal security; it had 113 combat aircraft and 29 armed helicopters. Military expenditures were \$3.9 billion in 1997-98 or 2.1% of GDP. Various rebel groups were estimated at perhaps 15,000 and operate inside and outside of northern Myanmar.

## 18 INTERNATIONAL COOPERATION

Myanmar was admitted to UN membership on 19 April 1948; it is a member of ESCAP and all the nonregional specialized agencies. Regional bodies to which Myanmar belongs include the Asian Development Bank, ASEAN, and the Colombo Plan; it also is a member of G-77, a member of the WTO, and a signatory to the Law of the Sea. Myanmar's foreign policy is neutralist, and the country belongs to no alliances.

## 19 ECONOMY

As of 2000 nearly 75% of the economy was in the private sector comprised chiefly of agriculture (including fish and forestry), which is almost entirely private, contributing nearly 42% of GDP, down from 60% in the 1990s and employing close to 65% (1999 est.) of the work force. Myanmar is self-sufficient in food. Principal crops are paddy rice, corn, oilseed, sugarcane, and pulses. Traditionally rice was the major product and the major foreign exchange earner, accounting for about 70% of the country's cultivated land. In 1996, rice exports quadrupled to \$197 million, and accounted for 22% of merchandise exports. The Asian financial crisis hit Myanmar hard, reducing rice exports by about one-third. The major recipients of Myanmar's rice are Indonesia and China. Myanmar also has the world's largest stand of hardwood trees.

Industries include agricultural processing, textiles and footwear, wood and wood products, petroleum refining, mining production (mainly copper, tin, tungsten, and iron), construction materials, pharmaceuticals, and fertilizer. In 2000, industrial production accounted for 17% of GDP, up from 11% in 1998. In the past Myanmar was a net petroleum exporter, but production decreased steadily. Both oil and gas exploration is on-going with the participation of foreign companies, and in 1997/98 the energy sector grew by 37.7% (from virtual non-existence) due to investment in the Yadana natural gas pipeline to Thailand, which came on-line in 1999. The \$1.2 billion pipeline was a joint venture between the California company Unocal and the Myanmar military government. In 2003 the government was considering a \$1 billion Myanmar-Bangladesh-India pipeline that would be built in cooperation with Unocal Bangladesh, Unocal having been forced by the US government to sell its share in the

Myanmar Oil and Gas Company (MOGC). For the most part, Myanmar's significant mineral resources have not been fully developed due to out-dated equipment and poor management.

Infrastructure is a major impediment to economic growth. Water treatment and distribution, sewage disposal, and irrigation systems, as well as power transmission and distribution, require up-grading. Industry faces chronic shortages of electricity. Roads are poor and many are not passable during parts of the year. Telephone facilities are lacking; in 1993 there were only 100,000 telephone lines for the entire country. Presently a telecommunications modernization program includes the installation of a cellular telephone system in Yangon. The financial sector suffers from excessive bureaucratic red tape and foot-dragging by state economic enterprises fearing competition. The government drafted new laws on a central banking and financial institutions as steps toward improvement in the financial sector.

The government reported that the economy grew by 6% in 1995 and 6.8% in 1996. Growth was estimated by the US State Department at 1.1% for 1998. In 1999 strong growth of 10.9% was reported, propelled by a 13.8% growth in industry and 11.5% growth in agriculture. The government reported growth in 2000 at 13.6% overall but according to the Asian Development Bank (ADB), independent estimates suggest more modest progress of around 6%. Inflation had averaged about 25% for more than a decade, but a drop in food prices due to a bumper rice crop (and the heavy weight given rice in Myanmar's consumer price index) brought a sharp drop in inflation, to a negative 0.1% according to government statistics. In 2001 a slower annual growth of 5% was reported with a 9.6% resurgence of inflation.

It should be noted that it is difficult to assess the true economic situation in Myanmar due to the existence of an enormous and all-pervasive informal market. Much of Myanmar's economic activity is illicit, notably the smuggling of drugs. Myanmar, which forms part of the "Golden Triangle" (along with Laos and Thailand), is the world's largest supplier of illegal opiates. The government's efforts to control poppy production and drug traffic to China and Hong Kong were ineffective. Since 1989, the only kind of US aid for which Myanmar has been eligible, besides humanitarian aid, is counter-narcotic and crop substitution assistance, because of the human rights issues involved with the imposition of military rule in 1988. By 1995 Myanmar's opium production was estimated at 2,340 metric tons (the source for over 60% of US heroin imports). Large quantities of smuggled consumer goods are sold in Myanmar cities, where the black market thrives.

The military regime, SLORC, which took over Myanmar in 1988, proclaimed a market oriented economic policy and invited foreign investment. A 1992 United Nations Development Programme report noted that Myanmar after a few years of recovery from the economic and political upheaval of 1988 was again slipping into recession and hyperinflation. Myanmar's main donors suspended aid. The country has not fully serviced its foreign debt since 1988, a situation that by 2002 amounted to default. Two trends have been apparent in the government's economic policies: the capture of revenues from short term, quick turnover sources such as hardwoods, prospecting rights, and taxes on profits from illegal sources; and spending patterns that emphasize defense spending and acquisition of armaments. An estimated 87% of tax revenues are spent on the military whereas expenditures on health and on education both amount to less than 0.5% of GDP. Myanmar receives no aid from US or EC programs and aid from Japan is run at a maintenance level. The International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB) extend no credit to Myanmar.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Myanmar's gross domestic product (GDP) was estimated at \$63 billion. The per capita GDP was estimated at \$1,500. The annual growth rate of GDP was estimated at 2.3%. The average inflation rate in 2001 was 20%. 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 42% of GDP, industry 17%, and services 41%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$73 million or about \$2 per capita and accounted for approximately 0.2% of GDP. Foreign aid receipts amounted to about \$3 per capita.

## 21 LABOR

In 1999, about two-thirds of Myanmar's civilian wage labor force, estimated at 24 million, was engaged in agriculture, primarily rice cultivation. Roughly 10% were employed in industry, and the remainder in services. The unemployment rate was estimated at 5.1% in 2001.

No trade union or independent labor movement activity has occurred since 1988, when the government banned the workers' and peasants' organizations of the previous government, thereby eliminating any right to bargain collectively. Forced labor is frequently used by the military for building projects. Prison labor is also extensively used, especially in stone quarrying projects. Wage levels continue to be low and have been eroded by inflation.

While the official minimum working age is 13, the presence of child labor is conspicuous in both rural and urban areas. Most children must work to help support their families and only about 40% of children complete five years at primary schooling.

Only government workers and employees of a few traditional industries are covered by minimum wage laws, which was \$0.25 daily for a six hour workday in 2002. A skilled factory worker can earn around \$12.00 a day. Health and safety risks in the workplace are prevalent.

## 22 AGRICULTURE

Myanmar is one of the few developing nations that is a net exporter of food, which accounted for 20% of its foreign exchange earnings in 2001. About 15% of the land is under cultivation. Agriculture generated roughly two-thirds of employment and 42% of the recorded GDP in 2000.

Rice, by far the most important agricultural product, in 1999 covered about 5.5 million hectares (13.5 million acres) of land in the fertile Irrawaddy delta region, the lower valleys of the Sittang and Salween rivers, and along the Arakan and Tenasserim coasts. Prior to World War II (1939–45), Myanmar was the world's leading exporter of rice; annual production ranged between 13 million and 14 million tons, of which about three million tons were exported. However, the war caused extensive damage to the economy, and Myanmar did not achieve prewar levels of rice acreage and output until 1964. Rice production totaled 10.77 million tons in 2000/01. Farmers have been instructed by the government to double-crop wet season paddy and triple-crop in areas with year-round access to water. In some areas near the sea, multiple cropping brings saltwater intrusion, high flood risks, and seasonal pest problems. New high-yield varieties of rice have contributed to the increases in recent years, along with the completion of new irrigation systems and flood-control dams in the Irrawaddy delta during the early 1980s.

Other crops in 1999, grown mainly in central Myanmar and the state of Shan, included 5,429,000 tons of sugarcane, 562,000 tons of groundnuts, 303,000 tons of corn, and 210,000 tons of

sesame. The use of high-yield varieties of seeds helped to more than triple the output of wheat, corn, and sunflower seeds and to double cotton production during 1976–86. Tobacco and jute are also produced, and rubber is grown on small plantations in the Tenasserim and Irrawaddy delta regions. Myanmar is the world's largest producer of opium and heroin. In 2001, opium poppy production was estimated at 865 tons.

The total amount of land under cultivation declined in the 1970s, but the amount of paddy land increased. The Mu Valley irrigation project, implemented in north-central Myanmar with UNDP aid in the 1970s, irrigated 1.7 million hectares (4.2 million acres) of farmland. With the completion of the Nawin Dam in 1982, about 40,000 hectares (99,000 acres) of new irrigated land in the Prome region, north of Yangon (Rangoon), were added to the cultivated area. With IBRD and Asian Development Bank aid, new rice storage facilities, a system of drainage canals in the heavy-rainfall paddy land of lower Myanmar, and gravity irrigation systems in dry zones were constructed.

## 23 ANIMAL HUSBANDRY

Despite Buddhist prohibitions against any kind of animal slaughter, the Myanmar eat beef and other meats. Zebu cattle and water buffalo are mainly raised as draft animals; the output of such hides was 25,000 tons in 1999. Dairy farming is confined to the Shan and Kachin states; hogs and poultry are found in virtually every village.

In 2001, Myanmar had an estimated 11,218,000 head of cattle, 4,138,000 hogs, 2,500,000 water buffalo, 1,439,000 goats, 403,000 sheep, and 48,269,000 chickens, and 6,000,000 ducks. Meat production was 476,000 tons; milk from cattle, 581,000 tons (82% cow, 18% buffalo); eggs, 86,000 tons.

## 24 FISHING

Fishing is the most significant nonagricultural pursuit in Myanmar. Fish, which supply the main protein element in the Myanmar diet, generally are dried and salted before marketing or consumed fresh or as fish paste. Roho labeo and various carp are the main species caught. Traditionally, the Myanmar preferred fish from fresh or brackish water; but saltwater fishing in the shallow waters of the Bay of Bengal, Andaman Sea, and Gulf of Martaban has increased in recent years. To encourage a larger saltwater catch, the government embarked on expanded deep-sea fishing operations and erected a cold storage plant, a fish cannery, and a fish oil and meal factory. The total fish catch in 2000 was 1,069,726 tons (82% saltwater, 18% freshwater), up from 686,515 tons in 1986. Exports of fish products were valued at \$184.9 million in 2000.

## 25 FORESTRY

Forests and woodland cover nearly half the country, even though the annual deforestation rate was 0.68% during 1975–89. Some 38% of the forest was Reserved Forest Area in 2001. Myanmar has a major share of the world's teak reserves, which constitute about one-third of the forested area. As the world's leading exporter of teak, Myanmar supplies about 75% of the world market. The lumbering of teak, a 10-year process from the first girdling of the tree to its arrival at the sawmill, was disrupted by World War II (1939–45); production rebounded to about 136,000 tons in 1986. Increased output of teak in the 1980s was attributable to completion of four modern timber-extraction projects. Teak log production totaled 622,000 tons in 2001. A special teak plantation program begun in 1998 will provide a sustainable production of 1.8 million cu m (63.5 million cu ft) per year. Roundwood production in 2000 totaled 22.8 million cu m (805 million cu ft). Other forest products include lac, catechu resin, and bamboo.

All foreign timber concessions have been nationalized, and all forests are government-owned; the State Timber Board (STB)



lumber, mills, and markets forest products. The export of forest products decreased in value from \$294.1 million in 1993 to \$221.5 million in 2000.

## 26 MINING

With the exception of precious gemstones, of which Myanmar had large resources, mineral production was small, and mostly for domestic consumption. The mining sector, including oil and gas, contributed 2% of GDP in 2001. Copper, tin, tungsten, iron, construction materials, and fertilizer were among the country's leading industries in 2002; precious stones ranked fourth among export commodities, supplying 2% of export earnings.

Outputs for 2001 were: copper (metal content), 26,300 tons, up from 6,700 in 1998 (ore reserves at the Sabetaung deposit were 51.2 million tons at a grade of 0.432%, and those at the Sabetaung South deposit, 13.7 million tons at 0.379%); tin (metal content, from tin and tin-tungsten concentrate), 230 tons, down from 335 in 1997; tungsten (metal content, from tin and tin-tungsten concentrate), 71 tons, down from 272 in 1997; jade, 1.7 million kg, down from 8.32 million in 2000; and spinel rubies and sapphires, 8.63 million carats, down from 14.45 million in 1998. Metallic ores of chromite, gold, lead, manganese, nickel, silver, and zinc were mined in small amounts. Industrial mineral production included construction aggregates, barite, hydraulic cement, fire clay, feldspar, gypsum, limestone, salt (including brine salt), sand and gravel, and silica sand. Lead, zinc, silver, copper, nickel, and cobalt were produced at the Bawdwin mine, in Namtu. No carbonate rocks, cobalt, or dolomite was produced in 2000 or 2001. Deposits of iron ore and antimony have been found.

The government controlled all mineral exploration, extraction, regulation, and planning through the two departments and six enterprises of the Ministry of Mines. In 2001, state-owned enterprises—whose share of output was 5.5% (11.6% in 1998)—operated one gold mine (the Kyaukpahtoe), three nonferrous metals mines (the Bawdwin, Bawsaing, and the Yadanatheingi), and two coal mines. Of the four foreign exploration companies active in 2000, two were active in 2001—mining gypsum, zinc, and gold. The Myalate Taung limestone resources, in Kyaukse Township, Mandalay Division, had 291 million tons.

## 27 ENERGY AND POWER

Myanmar's petroleum industry was completely nationalized in 1963–64, and the Petroleum and Mineral Development Corp. was formed by the amalgamation of the Mineral Resources Development Corp., the Mines and Explosives Department, and the Burma Geological Development Corp. Petroleum and natural gas deposits were found in 1963 in the Irrawaddy basin and delta. Myanmar has been self-sufficient in oil since 1977; petroleum reserves were estimated at 51.3 million barrels in 1991. Most natural gas comes from the field at Prome. Exploitation of the natural gas discovery in the Gulf of Martaban, Natmi, and Payagon was expected to significantly raise Myanmar's energy reserves. Oil production was estimated at 11,000 barrels per day in 1998. In 1995, natural gas production totaled 51,044 million cu ft (1,446 million cu m). Pipelines in Myanmar include 1,343 km (835 mi) for crude petroleum and 330 km (205 mi) for natural gas, although some of these lines are believed to be in disrepair. Coal resources in Myanmar are of relatively low thermal value. The two principal mines are an underground mine south of Kalewa and an opencast mine at Namma, south of Lashio. About 32,191 tons of coal came from the two mines in 1995.

Production of electricity in 2000 totaled 49,310 million kWh, of which thermal plants provided about 83% and hydroelectric power roughly 17%. Electric power capacity rose to 1,458 MW in 2001, but power supply remained inadequate to meet the country's needs and shortages were on the rise across the country.

## 28 INDUSTRY

Industry is geared largely to the processing of agricultural, mineral, and forest products. More than half of Myanmar industrial production is accounted for by the public sector. Principal industrial products are cement, steel, bricks and tiles, fertilizers, and processed foods. Consumer goods that were imported before 1962 and are now manufactured domestically include blankets, paper, glass products, bicycles, and water pumps. Other major consumer manufactures are aluminum ware, jute and cotton cloth, pharmaceuticals, beverages, matches, and cigarettes. There is also a growing segment engaged in the assembly of television sets and motor vehicles. The main industrial area is Bago (formerly Pegu). Some manufacturing industries are privately owned and operated under government supervision.

Industrial production grew by 9.2% in fiscal year 1995–96, and represented about 11% of the gross domestic product in 1997. In 1998, in spite of the of the Asian financial crisis, industrial production grew 6.1%. Growth increased to 13.8% in 1999, when an estimated 10% of the labor force was employed in the industrial sector. In 2000, it was estimated that industry constituted 17% of GDP. In 1995, production of pig iron totaled 1,500 tons; crude steel, 25,000 tons; and refined tin, 190 tons. The petroleum and petrochemical sector in Myanmar is entirely state-owned (excluding indigenous fuels such as charcoal). In 2002, Myanmar had two state-owned refineries with a total refining capacity of 32,000 barrels a day, about twice the level being produced in 1995. The \$1.2 billion natural gas pipeline connecting to Thailand began operations in 1999, and plans for a \$1 billion Myanmar-Bangladesh-India gas pipeline were being considered in 2003.

## 29 SCIENCE AND TECHNOLOGY

Scientific research is conducted by the private Burma Research Society, founded in 1910, and by the government's Central Research Organization, consisting of various departments of the state ministries. Four institutes conduct research in applied sciences, medicine, and atomic energy. In addition, the Department of Land Management Studies Research of the Institute of Economics investigates problems posed by modernization techniques and industrial development. The Universities of Mandalay, Mawlamyine, and Yangon offer degrees in basic sciences. In 1987–97, science and engineering students accounted for 56% of college and university enrollments.

## 30 DOMESTIC TRADE

In 1964, the Ne Win government nationalized all wholesale businesses and the large private and cooperative shops; small retail shops, hotels, restaurants, and village cooperatives were exempted. The People's Stores Corp., established in 1964, was initially responsible for the importation and distribution of essential foreign goods, the distribution of consumer goods produced in Myanmar, and the sale of domestic products in foreign markets. The corporation was administered by a council headed by the Ministry of Supplies and Cooperatives. In 1970, the "people's stores," most of which had been unsuccessful, were replaced by consumer cooperatives. Beginning in 1966, the government set all commodity prices and controlled distribution systems; in September 1987, the Burmese people were told that they could buy, sell, and store rice and other grains free of government restrictions. As of 1997, these liberalization measures have been most effective in the agricultural sector, although overall, the military still controls the lion's share of the economy. As of 1999, about 65% of the work force was employed in agriculture.

Although significant marketing is done at Bago (Pegu), Mandalay, Mawlamyine (Moulmein), Patheingyi (Bassein), Henzada, Akyab (Sittwe), and Dawei (Tavoy), Yangon (Rangoon) is Myanmar's most important business center. Myanmar's domestic economy is paralleled by a huge black market economy that co-exists with the official one; the underground economy may be at least as large as the legal economy. A factor in the decline of Myanmar's domestic production is dependence on border trade, which undermines Myanmar's manufacturing sector with cheap foreign consumer goods. Credit cards are not widely accepted.

Normal business hours are 9:30 AM to 1 PM and 1:30 to 4 PM, Monday–Friday, and 9:30 AM to 12:30 PM on Saturday; small private shops keep longer hours than government offices and enterprises. Banks are usually open 10 AM to 2 PM, Monday–Friday, and 10 AM to noon on Saturday.

### 31 FOREIGN TRADE

It is estimated that from 1992 to 1995 the legal merchandise trade deficit (excluding military imports) grew from \$412 million to \$737 million. All financial estimates are suspect because of the exclusion of a large extralegal sector and substantial military imports, neither of which are included in official figures. The value of opiate exports alone may now be roughly comparable to all legal merchandise and service exports receipts. Border areas not under the control of the government also engage in unreported exports of timber, rice, jade, gems, minerals, and rare animals.

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Myanmar's exports was \$1.8 billion while imports totaled \$2.2 billion resulting in a trade deficit of \$400 million.

The International Monetary Fund (IMF) reports that in 2001 Myanmar had exports of goods totaling \$2.3 billion and imports totaling \$2.56 billion. The services credit totaled \$420 million and debit \$377 million. The following table summarizes Myanmar's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-306</b>
Balance on goods	-269
Balance on services	43
Balance on income	-363
Current transfers	283
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>395</b>
Direct investment abroad	...
Direct investment in Myanmar	208
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	...
Other investment liabilities	187
<b>Net Errors and Omissions</b>	<b>88</b>
<b>Reserves and Related Items</b>	<b>-178</b>

### 33 BANKING AND SECURITIES

Effective 23 February 1963, all 24 commercial banks in Myanmar—10 foreign and 14 indigenously owned—were nationalized and amalgamated into 4 state banks. In addition to the Central Bank of Myanmar, Union of Burma Bank, which serves as a central bank, the other state banks were the State Agricultural Bank, the State Commercial Bank, and the Industrial Bank. After subsequent reorganizations of the banking system, these became the Myanma Investment and Commercial Bank, Myanma Economic Bank, and the Myanma Foreign Trade Bank. Agricultural credit is provided by a separate Myanmar

Agricultural and Rural Development Bank. Public savings increased sharply in 1977 after the banks raised interest rates. Efforts to attract the considerable liquidity in the hands of the public into the banking sector, and thence into investment, have not had much success.

By the end of 1994, licenses to open representative offices had been issued to 19 banks from overseas—six from Thailand, five from Singapore, three from Malaysia, and one each from France, Indonesia, Cambodia, Hong Kong, and Bangladesh. Eventually, 54 foreign banks had offices in Myanmar, but 2000–2002, 21 of them left the country, and nine more downgraded their operations there. As of the end of 2002, 27 foreign banks have representative offices in Burma, but none from the US. Since 1994 four private domestic banks have been permitted to conduct foreign exchange transactions for the first time. Various types of foreign exchange licenses have been issued recently to the private sector by the Central Bank. It issued seven authorized dealer licenses, three money changer licenses, 396 acceptor and holder licenses, and 66 FEC changer licenses in August 1994. Despite the liberalization of its economy, the country still lacks a capital market. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$103.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$170.7 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

### 34 INSURANCE

All 78 foreign insurance companies registered in Myanmar were nationalized on 1 March 1963. All forms of insurance, including life, fire, marine, automobile, workers' compensation, personal accident, and burglary, are handled by the Myanma Insurance Corp. Life insurance coverage is compulsory for government employees.

### 35 PUBLIC FINANCE

The government presents its budget in March for the 1 April–31 March fiscal year. The public sector budget typically shows an overall deficit because of economic mismanagement.

The US Central Intelligence Agency (CIA) estimates that in 1997 Myanmar's central government took in revenues of approximately \$7.9 billion and had expenditures of \$12.2 billion including capital expenditures of \$5.7 billion. Overall, the government registered a deficit of approximately \$4.3 billion. External debt totaled \$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%</b>	<b>7,900</b>
Tax revenue	56.0%	4,425
Non-tax revenue	41.3%	3,264
Capital revenue	0.9%	72
Grants	1.8%	139
<b>EXPENDITURES</b>	<b>100%</b>	<b>12,200</b>
General public services	8.9%	1,085
Defense	30.6%	3,735
Education	9.4%	1,141
Health	3.5%	428
Social security	2.3%	279
Housing and community amenities	0.4%	45
Recreation, cultural, and religious affairs	2.3%	280
Economic affairs and services	34.9%	4,261
Other expenditures	7.7%	945

### 36 TAXATION

Residents pay a progressive individual income tax of 3–30%. The corporate tax rate is 30% with a 10% capital gains tax (40% for non-residents). Indirect taxes include a commercial tax on prescribed services, ranging from 5% to 30%, and on goods, ranging from 5% to 200%. There are also social security taxes, customs duties, royalties on natural resources, stamp tax, and property tax. The ratio of tax revenues to GDP is very low, estimated at between 2.3% to 3.6%, of which it is also estimated that 87% goes to the military.

### 37 CUSTOMS AND DUTIES

Duties are primarily intended to raise revenue, although their financial importance is limited by the fact that the government itself—through its Myanmar Export-Import Corp.—is by far the country's predominant importer. Import licenses are required for shipment of almost anything into the country. The official exchange rate overvalues the domestic currency by 100 times. Until Myanmar joined ASEAN in July 1997, customs tariffs ranged from zero to 500%; in 1997, a new tariff schedule went into effect ranging from zero to 15% for most industrial inputs to a maximum of 40% for cars and luxury items. In spring 1998 a 10% service fee (reduced to 8% by September) was enacted on all border-trade exports.

### 38 FOREIGN INVESTMENT

Foreign investment in Myanmar was heavy before World War II, but in the postwar period, and particularly after independence, a government policy of economic nationalism (and later socialism) strongly discouraged private foreign investment. After the nationalization of industry in 1963–64, private foreign investment in Myanmar was eliminated entirely. In 1976, the government indicated a willingness to establish “mutually beneficial economic cooperation” with foreign enterprises having the technology that Myanmar needed. The scope of state capitalism was expanded when the Saw Maung regime legalized internal and external trade without giving up control of major industries.

Foreign investment in Myanmar has been permitted only since 1988 under the Union of Myanmar Foreign Investment Law, and the level and variety of investment is limited. Sectors eligible for foreign investment include manufacturing, oil and gas exploration and development, mining (except gold and precious stones), jewelry production, and agriculture. The Foreign Investment Commission (FIC) screens foreign investment proposals for export generation potential, technology transfer, and the size of the investment. Various investment incentives are provided, such as exemption from income tax, and relief or exemption from customs duties. Bureaucratic procedures and a antiquated and inadequate infrastructure hamper foreign and local investments alike. Foreign entities cannot own land in Myanmar. The government's maintenance of an official exchange rate for the domestic currency, the kyat, which was overvalued by some 60 times its unofficial value; by the start of 2002 the disparity had reached about 100 to 1, constituting a major obstacle to foreign investment. Foreign investors must also fear being criticized in the West for investing in a country with a long record of human rights violations. In 1996 a lawsuit was brought against Unocal for its predication in the joint venture building the natural gas pipeline with Thailand, and the forced labor and other human rights abuses connected with the construction. The Clinton administration pressured Unocal to sell its shares in the Myanmar Oil and Gas Company (MOGC). The French company, Total (now TotalFinaElf) had earlier been pressed to sell its share in MOGC to Unocal.

In 1997, Myanmar was admitted to the Association of Southeast Asian Nations (ASEAN), a step that might have

relieved some of the international pressure against doing business in the country; however, in May of that year, the US government enacted restriction against new investment in Myanmar by US companies or citizens.

As of January 2001, foreign investment under the liberalized regime of 1988 totaled about \$7.4 billion. Of that amount, investment from the US totaled only \$582 million, with the majority, 51.35%, coming from ASEAN countries, including \$1.5 billion from Singapore, \$1.2 billion from Thailand, \$597 million from Malaysia, \$240 million from Indonesia, and \$147 million from the Philippines. The United Kingdom, however, was the second-largest source of approved investments, at \$1.4 billion. Investments from France and Japan totaled \$470 million and \$233 mil, respectively.

After the Asian financial crisis, however, foreign investment dropped off considerably. Of the total, only \$1.17 billion (16.8%) represents approved investment value after 1996, \$673.6 million or 57.59% from ASEAN countries. In 1996/97, annual foreign investment peaked at \$2.6 billion and then fell to \$29.5 million in 1997/98. The continuance of the declining trend was made starkly apparent in the first six months of 2002 when investment from ASEAN members fell to zero, compared to an already-low \$32.28 million from these countries in the first six months of 2001. In March 2003 the government introduced a measure that stopped the issue of import and export permits to Myanmar-based foreign companies, making the regime less attractive to foreign investors.

### 39 ECONOMIC DEVELOPMENT

The major aim of Myanmar's government has been to rehabilitate, modernize, and diversify an economy that was extensively disrupted by World War II and that failed to develop from the 1940s through the 1960s. To this end, all foreign companies, all banks, the entire transport system, all foreign and much domestic trade, and all the main branches of industry have been nationalized. Some nationalized industries initially showed declines in output, while others were hard pressed to hold their own. By 1974, the government had no choice but to modify some of its more rigidly Socialist economic policies. Economic development proceeded slowly under the four-year plan for 1974–78 and the 1978–82 development program, which was allocated 60% more funding than its predecessor and which achieved an annual growth rate exceeding 6%. The four-year plan for 1982–86, costing an estimated \$5 billion, set an average annual growth target of 6.2%. The plan stressed infrastructural development, with particular emphasis on agriculture, construction, and energy production. The four-year plan for 1986–90 encouraged foreign investment. Since 1990, private investment has been encouraged as the government attempts to revitalize the economy. As of January 2001, the value of approved investment had reached about \$7.4 billion. However, most of this—\$6.23 billion or 84%—came before the Asian financial crisis of 1997. Before 1997, foreign investment approvals had averaged close to \$900 million a year; from 1997 to 2000, the average was \$234 million a year. The economy has not recovered from the effects of the 1997 crisis, and problems have only worsened with the global slowdown in 2001, and the worldwide decline of foreign direct investment in the aftermath of the 11 September 2001 terrorist attacks on the United States. In 2001, the government introduced its third five year short-term plan, with a targeted average growth rate of 6%. However, both continued reform and substantial foreign investment would be necessary to meet the goals of the plan. Such needed reforms include dismantling unproductive state-owned enterprises, establishing an independent state bank, making available private sector credit, controlling government spending, and adjusting the official exchange rate. However, in 2002, the gap between the official exchange rate and the market rate had widened to an

astounding 100 to 1, and foreign investment has slowed to a trickle. In the first six months of 2002, investment from other ASEAN countries, the source of most of Myanmar's foreign investment to date, was actually zero.

#### 40 SOCIAL DEVELOPMENT

Although considerable advances have been made in health services, Myanmar's goal of establishing a welfare state has been limited by lack of public funds. In 1956, the government inaugurated a social security program that compensates workers for wage losses arising from sickness, injury, and maternity leave, provides free medical care, and establishes survivors' benefits. The program is funded by contributions from employers, employees, and the government. As yet, Myanmar does not have unemployment insurance, but public employees are entitled to old age pensions.

Women have a high status in Myanmar's society and economic life. They may retain their maiden name after marriage, may obtain divorces without undue difficulty, and enjoy equal property and inheritance rights with men. Spousal abuse is infrequent; married couples often live with extended family which deters abuse. Traditional views of women often prevent them from entering male dominated occupations, and they do not always receive equal pay for equal work.

Myanmar's military regime continues to systematically engage in human rights abuses. Prison conditions are poor and mistreatment of prisoners is widespread. Arrests are often made arbitrarily and many detainees are held incommunicado.

Many ethnic minorities are denied full citizenship. Those of Muslim, Indian and Chinese descent, for example, are not free to travel domestically and are barred from certain university programs. The ethnic Chinese face discrimination and harassment by officials.

#### 41 HEALTH

Until the 1980s and 1990s, few people in rural areas had the benefit of modern medicine. To correct this deficiency, the country's health services were reorganized by sending more doctors to rural areas and increasing the number of rural health centers. Doctors in private practice were inducted for two years of national service. The progress of the health services in the 1980s is reflected in the reduction of the physician/population ratio from 1 per 15,560 in 1960 to 1 per 3,578 by 1986. To staff the new hospitals and dispensaries, medical schools have been expanded, nurse and midwife training courses increased, an institute of paramedical science was established, and a new college of dentistry opened. As of 1999, there were an estimated 0.3 physicians and 0.6 hospital beds per 1,000 people.

A team of nutritionists conducts research on the nation's diet and disseminates its findings and recommendations through the press, radio, and demonstrations in offices and factories. One result of these efforts has been that the average height and weight of Myanmar's populace have increased.

Smallpox and plague have been virtually eliminated as health hazards and programs are under way to eradicate malaria and tuberculosis. However, gastrointestinal diseases such as typhoid, dysentery, and cholera remain prevalent. One of the problems yet to be overcome is the lack of potable water for residents; in 2000, 68% of the population had access to safe drinking water and 46% had adequate sanitation. Another serious health problem is drug addiction, exacerbated by the easy availability and low cost of opium. Under a drug abuse control program financed by the United States and the UN, a new 300-bed hospital for addicts opened in 1982 at Thayetmyo, along the Irrawaddy in central Myanmar; smaller facilities have been established in about two dozen other towns.

The infant mortality rate dropped from 129.9 deaths per 1,000 live births in 1960 to about 89 in 2000, while average life

expectancy rose to 51 years. Between 1990 and 1995, 60% of the population had access to health services. During 1987–1990 immunization was estimated to have saved 60,000 young children and averted 2.4 incidences of vaccine-preventable diseases. Between 1990–1994, the immunization rates for children under one were as follows: tuberculosis, 83%; diphtheria, pertussis and tetanus, 77%; and polio, 77%. The level of measles immunization rose by more than 50% between 1988 and 1994. By 1999, 83% of children were immunized for DPT and 85% for measles.

The total fertility rate decreased from 5.1 in 1990 to 3 in 2000. The maternal mortality rate was 230 per 100,000 live births in 1998. As of 1999, 29% of children under the age of five were malnourished.

There were 1,093 new cases of AIDS in 1996; that year, international health organizations estimated the number of Myanmar infected in the north alone to be 350,000–400,000. HIV prevalence as of 1999 was 1.99 per 100 adults.

#### 42 HOUSING

Prewar housing in Myanmar compared favorably with that in other Southeast Asian nations, but housing conditions have deteriorated. In 2000, about 68% of the population had access to improved water sources and 46% of the population had access to improved sanitation. Urban dwellings are overcrowded and often unsafe. The last available statistics indicate that over 50% of all housing units were built of wood and bamboo. The government has been working on projects to alleviate homelessness and the prevalence of squatter communities in many areas by building apartment-style structures to replace hut dwellings.

#### 43 EDUCATION

Education is free, although informal fees were increasingly imposed in the late 1990s. Primary education is compulsory for five years, although observers estimate that between two-thirds and three-fourths of students drop out before completing five years. Generally, Burmese is the language of instruction, and English is taught in the secondary schools; as of 1982, however, English became the medium of instruction in the universities.

The system of education initiated by the Ne Win government in 1964 equates learning with livelihood. At that time, the government announced its intention of opening at least one agrarian high school and one technical high school in each district. By 1967 there were six agricultural high schools, seven industrial trade schools, and one technical high school in the country, and the government had taken over about 880 private schools. In 1996, Myanmar had 35,752 primary schools with 5,413,752 students. In the same year, secondary schools had approximately 107,000 teachers and 1,923,323 students. The pupil-teacher ratio at the primary level was 33 to 1 in 1999. In the same year, 83% of primary-school-age children were enrolled in school.

Primary education lasts for five years followed by four years of secondary education at the first stage and two years at the second stage. Postsecondary institutions, including 18 teacher-training colleges, six agricultural institutes, eight technical institutes, and 35 universities and colleges, had a total enrollment of 245,317 students with 5,730 teaching staff in 1996.

The Mass Education Council has attempted to increase literacy through special programs. The 2000 adult illiteracy rate was estimated at 15.3% (males, 11.0%; females, 19.4%), although international observers question this figure, estimating illiteracy to be much higher since up to 40% of children in rural areas do not enroll in school and those who do drop out early. As of 1999, public expenditure on education was estimated at 1.2% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Yangon (Rangoon), founded in 1952, contains 158,000 volumes. Other large libraries are the Arts and Science University Library in Mandalay, with 175,000 volumes, and the University of Yangon with 350,000 volumes. There are also several small college libraries, as well as state libraries and museums at Patheingyi (Bassein), Kyaukpadaung, Mandalay, and Mawlamyine (Moulmein). The National Museum of Art and Archaeology in Yangon was founded in 1952 and includes among its collection a replica of King Mindon's Mandalay Palace. The National Museum of Mandalay (1905) is housed in the Glass Palace and features historical relics of Burmese culture. Sometimes called the "land of golden pagodas," Myanmar also has thousands of Buddhist temples, many of which have been repaired and restored.

#### 45 MEDIA

The director-general of posts and telegraphs controls the telephone, telegraph, radio, and postal communications systems. In 2000 there were an estimated 250,000 mainline telephones in use; internal communication is mainly by wireless. In 1997, there were 8,492 cellular phones throughout the country. A satellite communications station that began operating in 1979 links Myanmar with more than 100 countries.

The government provides the only radio and television transmissions through Voice of Myanmar and TV-Myanmar (which broadcasts in color). As of 1999, there were 2 AM and 3 FM radio stations and 2 television stations. In 2000, there were 66 radios and 7 television sets per 1,000 population. As of 2000, Internet access is only legally available for government officials, tourist offices, and a few large businesses. There were only 500 Internet subscribers in 2000.

Chinese- and Indian-language newspapers are not allowed by the government, but two daily papers are still published in English. Leading newspapers in 1999 included *Kyemon* (1999 circulation, 100,000), *Myanma Alin* (400,000), and *The New Light of Myanmar* (14,000). There are some privately published magazines, but none has a high circulation or major influence.

The government professes to uphold freedom of the press, but there are no privately owned newspapers and the print media are government-controlled. In 1963, the government established its own press agency, the News Agency of Burma, with a monopoly on internal news distribution. As of 2002, the six daily papers are:

	LANGUAGE	CIRCULATION
<i>Myanmar Alin</i>	Burmese	400,000
<i>Loktha Pyithu Nayziri</i>	Burmese and English	184,000
<i>Kyemon</i>	Burmese	100,000
<i>Botahtuang</i>	Burmese	96,000
<i>The Hanthawaddy</i>	Burmese	23,000
<i>The New Light of Myanmar</i>	English	14,000

#### 46 ORGANIZATIONS

Although Myanmar has most common types of educational, religious, cultural, and social organizations, those associated with capitalist economic activity have all but disappeared. The Rotary Clubs were forced by the government to disband in late 1975, as were numerous other Western-style organizations before them. There are many cooperative and producers' societies, as well as substantial numbers of consumer cooperatives.

The Lanzin Youth Movement, founded in 1984, is a coordinating body for all of the national youth organizations. Youth branches of the Union Solidarity and Development Association and the Myanmar Red Cross Society are extremely popular. The YMCA and YWCA are also major organizations. The Myanmar Maternal and Child Welfare Association, founded in 1991, is the major social welfare organization.

#### 47 TOURISM, TRAVEL, AND RECREATION

Principal attractions include the palaces and Buddhist temples and shrines in the two largest cities and in the ancient city of Pagan. A visitor to Myanmar must have a passport, visa, and certificate of yellow fever inoculation if arriving from an infected area.

With the inception of military rule in 1988, tourism declined sharply but has risen again since 1990. In 2000, there were 206,243 tourist arrivals with tourism receipts at about \$42 million. There were 16,157 rooms with a total of about 32,314 bed-places, at 27% occupancy.

In 2002, the UN estimated the cost of staying in Yangon at \$123 per day, elsewhere daily costs were about \$67.

#### 48 FAMOUS MYANMA

U Nu (Thakin Nu, 1907-1995) was independent Myanmar's first premier (1948-62) and shares fame as founder of modern Myanmar with Aung San (1916-47), called the Father of the Burmese Revolution. Ne Win (Maung Shu Maung, b.1911) became premier in March 1962 and was president from 1974 to 1981. U Thant (1909-74) served as UN secretary-general from 1961 through 1971. Human rights activist Aung San Suu Kyi (b.1946) was awarded the 1990 Sakharov Prize for Freedom of Thought by the European Parliament, the 1990 Thorolf Rafto Human Rights Prize by Norway, and the 1991 Nobel Peace Prize. Anawrahta, who founded the early Burmese kingdom of Pagan in 1044 and established Hinayana Buddhism as the official religion, is a great figure in Burmese history, as are the Toungoo warrior-king Bayinnaung (r.1551-81) and Alaungpaya (r.1752-60), who established the dynasty that ruled Myanmar until 1886. Great writers of the Burmese past include Bhikkhu Rattasara, author of the poem *Hatthipala Pyo*, on the life of Gautama Buddha; Nawedegyi and Natshinnaung, poets of the Toungoo dynasties; and Binnyadala, who wrote of the long struggles of the Burmese king of Ava. In more recent times, U Ba Nyan and U Ba Zaw, well-known painters of the 1920s, introduced Western-style art into Myanmar; both died in the 1940s.

#### 49 DEPENDENCIES

Myanmar has no territories or colonies.

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# NAURU

Republic of Nauru

*Naoero*

**CAPITAL:** There is no formal capital. The seat of government is in the district of Yaren.

**FLAG:** The flag has a blue background divided horizontally by a narrow gold band, symbolizing the equator. Below the band is a white 12-pointed star, representing the island's 12 traditional tribes.

**ANTHEM:** *Nauru Ubwema (Nauru, Our Homeland)*.

**MONETARY UNIT:** The Australian dollar (A\$) of 100 cents is the legal currency. A\$1 = US\$0.61728 (or US\$1 = A\$1.62) as of May 2003.

**WEIGHTS AND MEASURES:** Imperial weights and measures are used.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 31 January; Angam Day, 26 October (a celebration of the day on which the population of Nauru reached the pre-World War II level); Christmas Day, 25 December; and Boxing Day, 26 December.

**TIME:** 11:30 PM = noon GMT.

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

Situated in the western Pacific, Nauru is one of the world's smallest independent nations, with an area of 21 sq km (8.1 sq mi), extending 5.6 km (3.5 mi) NNE–SSW and 4 km (2.5 mi) ESE–WNW. Comparatively, the area occupied by Nauru is about one-tenth the size of Washington, D.C. It lies between two island groups, the Solomons and the Gilberts, 53 km (33 mi) s of the equator and 3,930 km (2,442 mi) NNE of Sydney; its nearest neighbor is Banaba (formerly Ocean Island, now part of Kiribati), situated 305 km (190 mi) to the E. Nauru has a coastline of 30 km (18.6 mi). The Yaren district, which holds the seat of the government, is located on the southern coast of the Nauru.

## <sup>2</sup>TOPOGRAPHY

Nauru, one of the largest phosphate-rock islands in the Pacific, is oval-shaped and fringed by a wide coral reef. It has no natural harbor or anchorage. A relatively fertile belt varying in width from 150 to 300 m (490–980 ft) encircles the island. From this belt a coral cliff rises to a central plateau about 60 m (200 ft) above sea level. Buada Lagoon, a permanent, often brackish lake, covers some 300 acres (1.2 km/0.47 sq mi) in the southeastern end of the plateau. Apart from some brackish ponds and an underground lake, the nation's water supply is provided by rainfall.

## <sup>3</sup>CLIMATE

Nauru has a dry season, marked by easterly trade winds, and a wet season with westerly monsoons extending from November to February. The average annual rainfall is about 200 cm (79 in), but the amount varies greatly from year to year, and long droughts have been a recurrent problem. Temperatures remain steady, between 24° and 33°C (75–91°F) the year round, and relative humidity is also constant at about 80%.

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

The plateau area contains large phosphate deposits that almost completely inhibit any natural growth useful for subsistence or

commerce. Large areas of scrub and creeper, with occasional coconut and tamanu trees, grow in this region. On the coastal belt, coconut palms and pandanus (a type of screw pine) thrive. Some hibiscus, frangipani, and other tropical flowers grow, but they do not abound here as on other Pacific islands. Bird life is not plentiful, although noddies, terns, and frigate birds frequent the island. There are no indigenous land animals; however, hogs and poultry were introduced many years ago. Fish life is abundant in the seas encircling Nauru and good catches of tuna and bonito are taken.

## <sup>5</sup>ENVIRONMENT

Nauru's phosphate mining industry has done significant damage to the land. In 1987, the Nauruan government began to investigate the nation's mining operations with the goal of developing a plan to regenerate the land and replace lost vegetation. Land in the coastal region, however, has not been affected by the development of the country's mining industry. Vegetation in the coastal areas, such as pandanus and coconut palms, is plentiful. Nauru has limited freshwater resources. Its residents collect rainwater in rooftop storage tanks. Periodic droughts pose an additional hazard to the environment. Nauru is also affected by the global warming trend which has caused sea levels to rise, placing low-laying areas at risk from tidal surges and flooding. The bristle-thighed curlew and Finsch's reed warbler are vulnerable animal species.

## <sup>6</sup>POPULATION

The population of Nauru in 2003 was estimated by the United Nations at 12,000, which placed it as number 191 in population among the 193 nations of the world. In that year approximately 2% of the population was over 65 years of age, with another 40% 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 2.29%, with the projected population for the year 2015 at 17,000. The population density in 2002 was 545 per sq km (1,412 per sq mi). Most Nauruans live around the coastal fringes,

in their traditional districts. About half the population consists of immigrant contract laborers, technicians, and teachers. Most Chinese, as well as immigrants from Kiribati and Tuvalu, are settled in communities near the phosphate works.

It was estimated by the Population Reference Bureau that 100% of the population lived in urban areas in 2001. The Yaren District, which functions as the capital city, had a 2002 population of 11,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.5%.

## 7 MIGRATION

Immigration to Nauru is strictly controlled by the government. Nauruans are free to travel abroad. In 1999 the net migration rate was zero migrants per 1,000 population. The government views the migration levels as satisfactory. There were a total of 5,000 migrants living in Nauru in 2000, which accounted for more than 30% of the total population.

## 8 ETHNIC GROUPS

The Nauruan people are the only indigenous ethnic group on the island. They are of mixed Micronesian, Melanesian, and Polynesian origin and resemble the last strain most closely. Nauruans are traditionally divided into 12 clans or tribes in which descent is matrilineal, although kinship and inheritance rules have some patrilineal features. The 12 clans are Eamwit, Eamwidumwit, Deboe, Eoar, Emea, Eano, Emangum, Ranibok, Eamwidara, Iruwa, Irutsi (extinct), and Iwi (extinct). Admixtures of Caucasian and Negroid lineage in the 19th century and frequent intermarriage with other Pacific islanders have changed the present-day features of Nauruans from those of their forebears.

The Caucasians on the island are almost all Australians and New Zealanders employed in administrative or teaching posts or in the phosphate industry. The Chinese and immigrants from Kiribati and Tuvalu originally came to the island as laborers in the phosphate industry, some being accompanied by their families. Filipino contract workers are also present but are not permitted to bring their families.

As of 2002, 58% of the population was Nauruan, 26% other Pacific Islander, 8% Chinese, and 8% European.

## 9 LANGUAGES

Nauruan, which is distinct from all other Pacific tongues, is the official language. However, English is still commonly used in the schools, in government, and in business transactions. Most Nauruans are bilingual but use Nauruan in everyday life.

## 10 RELIGIONS

The Nauruans have accepted Christianity as a primary religion since the end of the 19th century. A 2002 report indicates that about two-thirds of the population are Protestant and one-third are Roman Catholic. Buddhism and Taoism are also represented, particularly among the Chinese community.

## 11 TRANSPORTATION

Transport to and from Nauru has traditionally been by ships calling at the island to unload freight and pick up phosphates for delivery to Australia, New Zealand, and other countries. There is no merchant marine, but the public Nauru Pacific Line has a fleet of six ships. In 2001, there was one airport with a paved runway. The government-owned Air Nauru flies regular air services to the Pacific islands, Taiwan, the Philippines, Hong Kong, Japan, Australia, and New Zealand. In 1997 it carried 137,000 passengers on scheduled flights.

The road system extended for a total of 30 km (19 mi) in 2002, of which 24 km (15 mi) were paved. Apart from a 5 km (3.1 mi) railway (used to carry phosphates), a school bus service, and

fewer than 2,000 registered motor vehicles, there is no local transport.

## 12 HISTORY

The original settlers are thought to have been castaways who drifted to Nauru from another Pacific island. The first recorded discovery of Nauru by a Westerner was made by Captain John Fearn of the whaling ship *Hunter* in November 1798. He named the island Pleasant Island. From the 1830s to the 1880s, the Nauruans had a succession of visitors—runaway convicts, deserters from whaling ships, and other men who can be classed as beachcombers. The beachcombers provided the Nauruans with their first real contact with Western civilization and introduced them to firearms and alcohol. They acted as a buffer between two cultures but were often a bad influence on the Nauruans. Several times beachcombers and Nauruans attempted to cut off and capture visiting ships, so that eventually Nauru came to be avoided as a watering place by ships whaling in the area. The advent of firearms also disturbed the balance of power between the tribes on the island; sporadic tribal warfare culminated in a 10-year civil war from 1878 to 1888 that reduced the native population to less than 1,000.

The British and German imperial governments agreed to the partition of the Western Pacific in 1886. Their purely arbitrary line of demarcation left Nauru in the German sphere of influence quite accidentally. It was not until 1888, on the petition of the beachcombers-turned-traders, that the German government annexed Nauru as a protectorate and disarmed the people. Christian missionaries arrived in 1899 and had a greater impact on the Nauruan culture than did the German administration.

In 1901, Sir Albert Ellis, a New Zealand geologist, discovered that there were large deposits of phosphate on both Nauru and Banaba (then called Ocean Island). Phosphate mining on Nauru began in 1907, after the German government had granted a concession to the British-owned Pacific Phosphate Co. Laborers from the German Caroline Islands were hired because the Nauruans had no interest in working in the mines.

Nauru was occupied by the Australian Expeditionary Force in 1914, and phosphate continued to be shipped all through World War I. In 1919, Nauru was made a League of Nations mandate of the British Empire, and the governments of Australia, New Zealand, and the United Kingdom agreed to administer the island jointly through an administrator to be appointed by Australia. At the same time the three governments obtained the mandate, they jointly purchased the Pacific Phosphate Co.'s rights to Nauruan phosphate for UK£3.5 million and began to work the deposits through a three-man board called the British Phosphate Commissioners (BPC).

The phosphate industry expanded greatly in the years between the wars. Australian and New Zealand farmers enjoyed substantial savings, for Nauru phosphate was sold at a much lower price than phosphate from other countries. As for the Nauruans, with their small royalty of eightpence a ton in 1939, they opted out of the industry completely and turned to their own culture for sustenance.

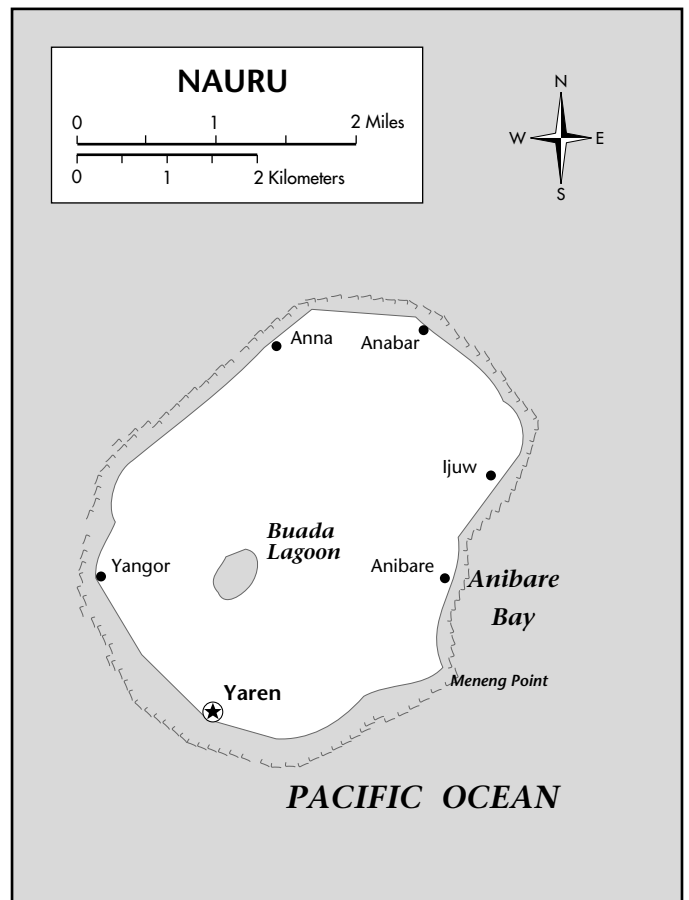
War came to Nauru in December 1940, when the island was shelled by a roving German raider, and four phosphate ships were sunk. Nauru was flattened by Japanese bombings beginning in December 1941, and all its industrial plant and housing facilities were destroyed. The Japanese occupied the island from August 1942 until the end of the war three years later. They deported 1,200 Nauruans to build an airstrip on Truk, a small atoll about 1,600 km (1,000 mi) northwest of Nauru, and many died there. Australian forces reoccupied Nauru in September 1945, and the surviving Truk Nauruans, who had been reduced in number to only 737, were repatriated in January 1946. Nauru's population thus fell from 1,848 in 1940 to 1,369 in 1946.

The three mandatory governments placed the mandate of Nauru before the UN. On 1 November 1947, the UN approved an agreement by which the island became a trust territory administered jointly by Australia, New Zealand, and the United Kingdom, who were to share the task of developing self-government on the island. The Nauruans had a Council of Chiefs to represent them since 1927, but this body had advisory powers only. Dissatisfied Nauruans made a number of complaints to the administering authority and to the UN Trusteeship Council, with the result that a Nauruan local government council was established by the election of nine council members in December 1951. Since control of the council was exercised by the administrator, however, the Nauruans continued to press for further political power. They asked for positions of importance in the administration and an increase in royalty payments, and expressed concern about the future of the island because the increased rate of phosphate exportation would, it was feared, exhaust the deposits by the end of the century. By constant negotiations, the Nauruans forced the BPC to pay royalties on a rights rather than needs basis, and with the establishment of a world price in 1964, phosphate royalties were raised. The Nauruans achieved control of the industry in 1967 by purchasing the plant and machinery owned by the BPC, and in 1970 they took over the industry completely.

Meanwhile, in 1964, Australia had attempted to resettle the Nauruans on Curtis Island, off the coast of Queensland. The Nauruans, although in principle not averse to resettlement, refused it because of political considerations. They wanted to own their island and to maintain their identity by political independence. Australia would not agree to this, and the plan collapsed. This failure reinforced the Nauruans' desire for political independence. With the support of the Trusteeship Council, they established an elected Legislative Council in 1966. Although Australia wished to maintain control of defense and external affairs, the Nauruans insisted on complete self-determination. Thus, on 31 January 1968, the 22nd anniversary of the return of the Nauruan survivors from Truk, Nauru became the smallest independent republic in the world. Since that time, Nauru has pursued a policy of isolation and nonalignment, although it does have a role in Commonwealth affairs. In October 1982, Queen Elizabeth II visited the island, the first British monarch to do so. Nauru established diplomatic ties with the former Soviet Union in 1988. Nauru filed a claim in 1989 for compensation from Australia at the International Court of Justice for the loss of nearly all its topsoil from phosphate mining during the League of Nations mandate and the UN trusteeship. In July 1992 Nauru hosted the 24th South Pacific Forum heads of government meeting, which focused on environmental issues, including opposition to nuclear testing in the area. Nauru's first president Hammer DeRoburt died on 15 July 1992 in Melbourne, Australia. Australia agreed to pay A\$2.5 million for 20 years, and New Zealand and the United Kingdom additionally agreed to pay a settlement of \$12 million each in August 1993 to settle the loss of topsoil case.

Nauru's government announced plans to rehabilitate the island at the 1994 Small Island States Conference on Sustainable Development.

Incumbent president Bernard Dowiyogo lost his 1995 bid for reelection to Lagumot Harris in 22 November 1995. However, a series of no-confidence votes over the succeeding years brought several changes in what has come to be called a "revolving door" presidency. Dowiyogo was returned to office for the fifth time, following an election in April 2000. On 29 March 2001, he was forced from office in a political crisis over the alleged involvement of a Russian organized crime syndicate in Nauru's financial activities. Nauru has been blacklisted by international financial monitoring organizations and banks for its role as a tax haven and money laundering center. Dowiyogo was replaced by



LOCATION: 0°32' S and 166°56' E. TERRITORIAL SEA LIMIT: 12 miles.

René Harris, who held the presidency until 8 January 2003, when a no-confidence motion was passed against him. His ouster from office was linked to his support for Australia's "Pacific Solution" to exclude asylum-seeking boat people. In 2001, Nauru agreed to accept hundreds of Afghan and Iraqi asylum seekers from Australia in return for millions of dollars in aid. Harris was also accused of corruption and was blamed for Nauru's dire financial situation: Nauru had a budget deficit in 2002 of approximately US\$40 million, almost half of its GDP. Following the vote of no-confidence against Harris on 8 January 2003, parliament voted numerous times on who would be elected president. He was replaced by Dowiyogo, who then died following heart surgery in the United States on 9 March 2003. Derog Gioura was named acting president. General elections were held on 3 May 2003, and Harris was returned to parliament, along with Gioura. As of 8 May, it was unknown who would be named president of Nauru.

Nauru became a member of the Commonwealth of Nations in May 1999 and joined the United Nations in September of the same year.

### 13 GOVERNMENT

The constitution of the Republic of Nauru, adopted at the time of independence and subsequently amended, provides that the republic shall have a parliamentary type of government. It contains provisions for the protection of fundamental rights and freedoms—a subject of particular importance because many of the inhabitants are short-term migrants ineligible for citizenship (defined in the constitution as being restricted to those of



Nauruan or of Nauruan and Pacific islander parentage). Legislative power is vested in the parliament, composed of 18 members elected for a three-year term by Nauruan citizens who have attained the age of 20 years. Seven of the eight constituencies (representing 10 out of 14 districts) return two members each, and the constituency of Ubenide (representing 4 districts) returns four members. The first woman was elected in 1986.

Executive power is exercised by the president, who also fulfills the residual duties of head of state; he is elected by parliament and is assisted by a cabinet, which he appoints. Hammer DeRoburt became president at independence in 1968 and was reelected in 1971 and 1973. He was defeated for reelection after the legislative voting in 1976, and Bernard Dowiyogo was chosen to succeed him as president. After DeRoburt's supporters forced Dowiyogo's resignation in 1978, DeRoburt again became president. He was reelected in 1980 and in 1983; after the 1983 victory, he persuaded his opponent Dowiyogo to become a cabinet member. In 1986, DeRoburt resigned in protest over opposition to his budget and was replaced by Kennan Adeang; however, DeRoburt's supporters quickly forced Adeang to resign, and DeRoburt was elected again. Because he did not have a clear majority, he called for a new election in 1987 and was reelected decisively. A vote of no confidence forced DeRoburt to resign in August 1989. He was replaced by Kenas Aroi, who then resigned in December 1989 for reasons of ill-health. The December 1989 general election resulted in Bernard Dowiyogo's election to the Presidency. He was reelected President for a second three year term in November 1992, but lost his 1995 bid for reelection to Lagumot Harris. However, a series of no-confidence votes brought seven changes in the presidency over the next five years. The election of April 2000 returned Dowiyogo to office, but he was replaced by Rene Harris in March 2001. Harris lost a vote of no-confidence in parliament in January 2003, and as of late February, the question of who would be president of Nauru was unresolved.

#### 14 POLITICAL PARTIES

There have been ad hoc political parties since independence in Nauru, but politics is generally based on personal loyalties and occasionally on issue-based coalitions. After DeRoburt's reelection in 1987, Kennan Adeang formed the Democratic Party of Nauru, which aimed to curb the power of the presidency. Eight members of parliament joined the party. As of 2003, the Nauru Party was headed by Bernard Dowiyogo, and the Center Party was headed by former president Kinza Clodumar.

#### 15 LOCAL GOVERNMENT

Acting as a local government and providing public services, the Nauru Island Council (NIC) was elected from the same constituencies as parliament, except that seven of the eight constituencies returned one member, and the constituency of Ubenide returned two members, making nine in all. The council elected a chairman, treasurer, and secretary. It held its sessions in the Domaneab, a Nauruan meetinghouse. Many members of parliament also served as councilors. The Nauru Island Council was dissolved in 1999; all assets and liabilities became vested in the Government of Nauru.

Besides fulfilling the traditional functions of local government, the Nauru Local Government Council manages the Nauru Corporation, the Nauru Pacific Line, and is responsible for overseas investments.

#### 16 JUDICIAL SYSTEM

The constitution provides for a supreme court, with a chief justice presiding. Cases are also heard in the district court or family court. There are two other quasi-courts: the Public Service Appeal Board and the Police Appeal Board. The chief justice presides

over both as chairman of the panel, with two members for each board.

The supreme court, which has original and appellate jurisdiction, is the supreme authority on the interpretation of the constitution. Appeals against decisions of the supreme court on certain matters go to the appellate court of Nauru, which is comprised of two judges. Cases also may be appealed to the high court of Australia. Parliament cannot overturn court decisions.

The judiciary is independent of the executive. The constitution guarantees protection of fundamental human rights which in practice are generally respected.

Many cases never reach the formal legal system. Most of the conflicts are resolved by the traditional reconciliation process.

#### 17 ARMED FORCES

Nauru has no armed forces. Although there is no formal agreement, Australia ensures its defense. There is a police force of 60 officers under civilian control.

#### 18 INTERNATIONAL COOPERATION

Nauru was admitted to the UN on 14 September 1999 and participates in the Asian Development Bank, ESCAP, FAO, ICAO, ITU, UNESCO, UPU, and WHO. The nation belongs to the South Pacific Commission and South Pacific Forum and is a special member of the Commonwealth of Nations, taking part in some Commonwealth functions but not represented at heads-of-government conferences. Nauru has signed the Law of the Sea.

#### 19 ECONOMY

The economy of Nauru has long been dependent on phosphates. Estimates are that the deposits will be exhausted within a few years. In anticipation of this event, substantial amounts of phosphate income are invested in trust funds to help cushion the transition. By 1987, an estimated \$450 million had been set aside to support the country after the phosphates run out. At one point, the value of the Nauru Phosphate Royalties Trusts reached \$1 billion, making Nauruans on paper the richest people in the Pacific. However, dividends from the trusts have declined sharply since 1990 and the government has been borrowing from the trusts to finance fiscal deficits. In addition, a 1994 audit of the trust revealed that about \$8.5 million had been lost due to bad investments and corruption.

By 1996 deficit spending had caused the country to default on servicing its external debt and was also creating problems in meeting the government payroll. A strict government austerity program reduced government spending 38% in 1998-99. Money has been lost through failed investments in property, aviation and fishing, but the evidence is indirect since there is no public accounting. In 2002, Air Nauru Pacific service was grounded because of arrears on bills to Qantas maintains. The air service is vital for food supply. Telephone service has also been occasionally cut because of unpaid bills.

The government has attempted to use the now-dwindling revenue from phosphates to diversify the island's economy, mainly through overseas investment and the development of a national airline and shipping line. Aside from phosphates, Nauru has few domestic resources, and many food products and virtually all consumer manufactures are imported. The government subsidizes imports so that food and other necessities are available at nominal cost. Nauru's economy is currently very weak and increasingly dependent on Australia. Offshore financial operations were begun in 1993, but the economy suffered in that year due to a major financial scandal. In 2000, the OECD listed Nauru one of 38 "noncooperative" tax havens. In 2002, it was one of only seven jurisdictions that remained on the list for not taking sufficient corrective action. A temporary infusion of funds was promised through Nauru's agreement with Australia to act as

an off-shore location for the processing of asylum seekers. For the use of its land, Nauru has been promised up to A\$30 million.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Nauru's gross domestic product (GDP) was estimated at \$60 million. The per capita GDP was estimated at \$5,000. The average inflation rate in 1993 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.

## 21 LABOR

The workforce is primarily engaged in the state-owned phosphate industry, with public administration, education and transportation providing employment as well. Only about 1% of employment is in the private sector. As of 1992, there were some 3,000 guest workers in Nauru, mostly from Vanuatu or Kiribati. Unemployment is virtually nonexistent. There were no trade unions or labor organizations as of 2002. The right to strike is neither protected or prohibited. Collective bargaining does not take place.

In 2002, the annual minimum wage in the public sector was \$6,562 for workers over 21 years of age. This provides an adequate standard of living for a family. The workweek for office employees is set at 36 hours, and for manual laborers the standard is 40 hours. The minimum age for employment is 17 years, although some younger children work in the few family-owned small operations. The government enforces health and safety standards in the workplace.

## 22 AGRICULTURE

Since the cultivated area is limited to about 200–240 ha (500–600 acres), there is little commercial agriculture. The main crop is coconuts; in 1999, production amounted to 2,000 tons. Some vegetables are grown, mainly by the Chinese population.

## 23 ANIMAL HUSBANDRY

Pigs and chickens roam uncontrolled on the island; hence, there is no organized production. In 2001, there were an estimated 2,800 pigs.

## 24 FISHING

There is as yet no organized fishing industry on Nauru, although the government plans to develop fishing facilities. The Nauru Fishing Corp., formed in 1979, is owned by the Local Government Council. Fish are plentiful and consumption is high, since almost all meat has to be imported from Australia. The total catch in 2000 was 250 tons.

## 25 FORESTRY

There are no forests on Nauru. All building timber has to be imported.

## 26 MINING

High-grade phosphate rock was virtually Nauru's only natural resource, its only export commodity and leading industry, and the basis of the Nauruan economy—GDP varied according to the world market price of phosphate. The government-owned Nauru Phosphate Corp. was the country's sole producer of phosphate rock, and the island nation's primary producer, employer, and exporter. Production of phosphate rock in 1998 was 487,000 tons, down from 613,000 in 1994. Phosphate rock reserves were expected to be depleted by 2004. In 1998, Nauru also produced common clays, sand and gravel, and stone.

Phosphate rock was extracted from the surface mine on the central plateau in the island's interior, using mechanical shovels

from between the coral pinnacles. Phosphate rock was trucked to a central storage pile and transported to storage hoppers by rail. After being crushed and dried, the rock was placed on conveyor belts to pass to the arm of two cantilevers, each about 60 m long, that projected out over the reef to waiting ships. All phosphate rock was exported—to New Zealand, Australia, the Philippines, and South Korea—and the associated coral was used domestically for road aggregate.

In 1999, the government planned to launch a program to rehabilitate and develop the phosphate lands that have been mined for nearly a hundred years—as of 1990, 61 million tons of phosphate had been mined. The plan was agreed to in 1994 with Australia and New Zealand, and the United Kingdom agreed to help Australia pay its \$73 million compensation package to Nauru for environmental damage; the rehabilitation would cost \$210 million over 23 years. Nauru's phosphate mine was the last active mine of three historic phosphate-producing islands of the Pacific. The other two, Makatea (in French Polynesia) and Banaba (formerly known as Ocean Island, in the Gilbert Islands group in the Republic of Kiribati), were depleted, respectively, in 1966 and 1979, making Nauru the sole Pacific Island producer.

## 27 ENERGY AND POWER

Power requirements on the island are met by a diesel oil generator to which nearly all buildings are connected. In 2001, total installed electrical power capacity was 10,000 kW. Production in 2000 was 30 million kWh, of which 100% was from fossil fuels. Consumption of electricity in 2000 was 27.9 million kWh. Imports of refined petroleum products amounted to 950 barrels per day in 1994.

## 28 INDUSTRY

The phosphate industry is the only industry on the island. It is under the control of the Nauru Phosphate Corp., a statutory corporation that is responsible to the president of the republic in his capacity as minister for island development and industry. About 75% of the profit from phosphate sales is invested in long-term trust funds that have been established to take care of the Nauruans after phosphate deposits are depleted. By 2002, the primary deposits were largely exhausted and expensive to mine; the mining equipment was poorly maintained and the mining operation overstuffed.

## 29 SCIENCE AND TECHNOLOGY

Nauru has little advanced technology, and Nauruans must travel abroad, usually to Australia, for scientific training.

## 30 DOMESTIC TRADE

The Nauru Cooperative Society conducts most of the nation's retail trade. The island is completely dependent on imported goods; foodstuffs come mainly from Australia. A majority of the population is employed in the phosphate mining industry, which is currently the nation's primary export.

## 31 FOREIGN TRADE

Nauru's only export is phosphate rock, with most going to Australia and New Zealand. The value of exports fluctuates as world phosphate prices rise or decline. Imports consist of pretty much everything, including machinery and construction materials for the phosphate industry, food, fresh water (from Australia), fuel, and other necessities. About half of the imports come from Australia, and almost all the rest from New Zealand, the UK, and Japan. Virtually all manufactured goods must be imported.

## 32 BALANCE OF PAYMENTS

Nauru has a strongly favorable balance of trade, and investments abroad are substantial.

### 33 BANKING AND SECURITIES

The government-owned Bank of Nauru was founded in 1976. The Commonwealth Savings Bank of Australia and the Bank of New South Wales have branches in Nauru. The only commercial bank in the country is the Jefferson Bank and Trust Co. (1980). Most of the income from phosphates is invested in long-term funds overseas.

There is no stock exchange.

### 34 INSURANCE

The Nauru Insurance Corp., founded in 1974, is the only licensed insurer and reinsurer on the island. It underwrites all classes of insurance, including aviation and marine.

### 35 PUBLIC FINANCE

Administrative costs in Nauru are met from the proceeds of phosphate sales, which are in decline as reserves approach exhaustion. In 1993, the governments of Nauru and Australia reached a US\$73 million out-of-court settlement as restitution for Nauruan lands ruined by Australian phosphate mining. This payment assisted the government (which relies almost entirely on phosphate receipts for revenue) in facilitating economic diversification. The fiscal year extends from 1 July to 30 June.

The US Central Intelligence Agency (CIA) estimates that in 1995/1996 Nauru's central government took in revenues of approximately \$23.4 million and had expenditures of \$64.8 million. Overall, the government registered a deficit of approximately \$41.4 million. External debt totaled \$33.3 million.

### 36 TAXATION

There is no income or other tax in Nauru, although Parliament has power to impose taxes. In 2000, the OECD listed Nauru as one of 38 "uncooperative tax havens." In 2002, it was one of only seven countries that had not gotten themselves removed from the list by taking some corrective action.

### 37 CUSTOMS AND DUTIES

Duties are payable only on imported cigarettes, tobacco, and alcoholic beverages.

### 38 FOREIGN INVESTMENT

Apart from the investment in the phosphate industry, now owned by the government of Nauru, there has been little investment on the island. The government of Nauru has large investments overseas in long-term funds financed from phosphate royalties. Nauru also has invested in commercial property development, notably a 53-story office building in Melbourne, Australia.

Plans were approved in 1985 to build an industrial, commercial, and residential complex in Honolulu and, with the help of Japanese companies, a 19-story, 450-room hotel on Guam. Nauru received US\$6.7 million from the Japanese government to build the new Anibare Community Boat Harbor at Yaren, scheduled to open in the spring of 2000. In 2002–03, the government is scheduled to receive up to A\$30 million for allowing Australia to use the island as a processing centre for asylum seekers.

### 39 ECONOMIC DEVELOPMENT

Government policy is to exploit the phosphate deposits to the fullest extent for the highest returns. The government has diversified into aviation and shipping and plans to develop fishing and tourism. It acquired the Grand Pacific Hotel on the Fijian Island of Suva and, in 1993, undertook a F\$18 million renovation of the facility. In 1993, Australia agreed to provide US\$73 million in compensation for pre-independence mining of phosphate to aid in restoring the extensive areas damaged by it.

In December 1998 Nauru won approval for a \$5 million loan from the Asian Development Bank to aid in implementing structural reforms, including privatization. A National Economic Summit was held in 1999, but the proceedings were not made public. The true state of the Nauru Phosphate Royalties Trust Fund (NPRTF) is not known, nor are the reasons for its apparent substantial decline. In 2002 and 2003 the economy received a small boost from money paid by Australia for housing asylum seekers. Nauru remains on the OECD's list of uncooperative tax havens.

### 40 SOCIAL DEVELOPMENT

Medical, dental, and hospital treatment and education are free. Other benefits—old age and disability pensions, widows' and sickness benefits, and child endowment—are administered by the Local Government Council.

The Constitution guarantees women equal rights with men, although traditional social values still discourage many from pursuing careers. In particular, women face great social pressure to marry and raise families because Nauru's population was decimated in World War II due to massive removals by the Japanese. Women's educational and employment opportunities are severely limited by these traditional views on the roles of women, and there have been reports of educational scholarships being suspended for young women contemplating marriage. Domestic abuse is not prevalent, and the government treats reports of violent incidents in a serious manner.

Human rights are generally well respected.

### 41 HEALTH

There are two modern hospitals. One hospital serves phosphate industry employees; the other provides free medical treatment for the rest of the population. Patients who need specialized care are flown to Australia. In 1995, there were 1.6 physicians and 5.9 nurses per 1,000 people.

Tuberculosis, leprosy, diabetes, and vitamin deficiencies have been the main health problems, partly due to the switch to a Westernized diet. A national foot care education program was launched in 1992 to decrease the number of diabetic amputations. With modern facilities and treatments, many of these diseases have been brought under control. Cardiovascular disease has also been a major cause of illness and death.

Life expectancy as of 2002 was estimated at 61.6 years. The infant mortality rate was an estimated 10.5 per 1,000 live births. The crude birth rate and overall mortality rate were estimated at, respectively, 26.6 and 7.1 per 1,000 people. The immunization rates for children under one year old in 1990 were as follows: diphtheria, tetanus, and pertussis, 74%; polio, 74%; measles, 74%; and tuberculosis, 93%.

There were no reported cases of polio or AIDS in 1995. Tuberculosis was reported in only four cases during 1994.

### 42 HOUSING

Ownership of houses built for Nauruans under a housing scheme is vested in the Local Government Council, but some Nauruan homes are privately owned. Nearly all houses have electricity and newer homes have a greater number of amenities.

### 43 EDUCATION

Attendance at school is compulsory for Nauruan children from 5 to 16 years old. Two types of schools are available, both coeducational: those run by the government and those conducted by the Roman Catholic Church. Education is provided free by the government. Education on Nauru is available up to the intermediate level; higher education overseas, mainly in Australia, is assisted by the government in the form of competitive scholarships. There is also a university extension center affiliated with the University of the South Pacific. In the early 1990s,

Nauru had six preprimary and two primary schools, one secondary school, and a technical school, as well as a mission school.

#### 44 LIBRARIES AND MUSEUMS

Nauru has one small lending library but no museums. There is a university library with 1,000 volumes.

#### 45 MEDIA

Communication with the outside world is maintained by a ground satellite station established in 1975, providing 24-hour telephone, telegraph, and telex services worldwide. A small telephone exchange, handling 2,000 telephones in 1996, provides on-island communication. In 1994, there were 450 cellular phones in use. A satellite earth station was commissioned in 1990.

Government-owned Radio Nauru, the only radio station, broadcasts in English and Nauruan. Though there is no local news reporting; the station rebroadcasts new services from Radio Australia and the BBC. As of 1997 there was one television station in operation. In the same year, there were 374 radios in use per 1,000 population. Internet service is available.

Most newspapers are imported. There are two regular publications: the private fortnightly newspaper, the *Central Star News* and the government *Gazette*.

The constitution provides for free expression, and the government is said to support this in practice.

#### 46 ORGANIZATIONS

The Boy Scouts, Girl Guides, and similar organizations function on the island. The Nauru National Youth Council was

established in 1990 to encourage the development of various youth organizations. The Women's Information and News Agency monitors issues relating to women and government.

#### 47 TOURISM, TRAVEL, AND RECREATION

With its sandy beach, coral reef, tropical climate, and sea breezes, Nauru has great potential for the development of tourism. Visas are required for entry, but inoculations are not mandatory.

In 1999, the US State Department estimated that daily expenses required by travelers in Nauru was \$105 per day. Hotel costs account for over 50% of this expenditure.

#### 48 FAMOUS NAURUANS

The best-known Nauruan is its first president, Hammer DeRoburt (1923–92), who led the Nauruan people to political independence; he was president from 1968 to 1976 and again from 1978 until his death in 1992 (except for a brief period in 1986).

#### 49 DEPENDENCIES

Nauru has no territories or colonies.

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# NEPAL

Kingdom of Nepal  
*Nepal Adhirajya*

**CAPITAL:** Kāthmāndu

**FLAG:** The national flag consists of two red adjoining triangles, outlined in blue and merging at the center; the points are at the fly. On the upper triangle, in white, is a symbolic representation of the moon; on the lower triangle, that of the sun.

**ANTHEM:** The national anthem begins “May His Majesty, solemn and supremely valiant, be prosperous forever.”

**MONETARY UNIT:** The Nepalese rupee (NR) is a paper currency of 100 paisa. There are coins of 1, 2, 5, 10, 20, 25, and 50 paisa and 1, 2, 5, 10, 20, 25, 50, and 100 rupees, and notes of 1, 2, 5, 10, 20, 50, 100, 500, and 1,000 Nepalese rupees. NR1 = \$0.01294 (or \$1 = NR77.25).

**WEIGHTS AND MEASURES:** The metric system is in use, but some traditional Indian standards also are employed.

**HOLIDAYS:** National Unity Day, 11 January; Martyrs’ Day, 30 January; Rashtriya Prajatantra Divas—National Democracy Day, 18 February; Nepalese Women’s Day, 8 March; Navabarsha—Nepalese New Year’s Day, mid-April; UN Day, 24 October; Queen Aishworya’s Birthday, 7 November; Constitution Day, 9 November; National Day (King Birendra’s Birthday), 28 December. Hindu and Buddhist religious holidays are based on the lunisolar calendar. Saturday is the general day of rest.

**TIME:** 5:45 PM = noon GMT.

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

A comparatively narrow strip of territory dividing India from China, landlocked Nepal has an area of about 140,800 sq km (54,363 sq mi), extending 885 km (550 mi) SE–NW and 201 km (125 mi) NE–SW. Comparatively, the area occupied by Nepal is slightly larger than the state of Arkansas. In its length lie some 800 km (500 mi) of the Himalayan mountain chain. Nepal is bounded on the N by China and on the E, S, and W by India, with a total boundary length of 2,926 km (1,818 mi). Nepal’s capital city, Kāthmāndu, is located in the central part of the country.

## <sup>2</sup>TOPOGRAPHY

Nepal is made up of three strikingly contrasted areas. Southern Nepal has much of the character of the great plains of India, from which it extends. Known as the Terai, this region comprises both cultivable land and dense jungle, the latter being for the most part a game preserve inhabited by the wild elephant, tiger, and other typically South Asian fauna. Besides being a hunting ground, the forests are worked for their valuable timber. The Terai contains about one-third of Nepal’s population and makes up about one-fourth of the total area. The second and by far the largest part of Nepal is formed by the Mahabharat, Churia, and Himalayan mountain ranges, extending from east to west. Their altitude increases toward the north, culminating on the Tibetan border in Mt. Everest (Sagarmatha in Nepali), standing amid other noble peaks. Three principal rivers originate from glaciers and snow-fed lakes, break southward through deep Himalayan gorges, and enter, respectively, the Karnali, Gandak, and Kosi basins. Flowing toward India, they become tributaries (as are all Nepal’s rivers) of the Ganges system. The third area is a high central region, some 890 km (344 sq mi) in extent between the main Himalayan and Mahabharat ranges; this region is known as the Kāthmāndu Valley, or the Valley of Nepal. Overlooked by mountains, the valley, with its fertile soil and temperate climate, supports a thriving agriculture. Here Kāthmāndu, the capital, is situated,

with the foothill towns of Bhaktapur and Patan nearby. This is the only region of Nepal that has any considerable population density.

Eight of the world’s highest mountains are situated in the Himalaya range on the Tibetan border. Triangulated in 1850, Mt. Everest was officially given the status of the world’s highest peak in 1859. The summit (8,850 m/29,035 ft) was reached for the first time on 29 May 1953 by Sir Edmund Hillary, a New Zealander, and Tenzing Norgay, a Sherpa guide.

## <sup>3</sup>CLIMATE

Below the Kāthmāndu Valley and throughout the Terai, the climate is subtropical and, in the swamps and forests, extremely humid. The valley itself enjoys the temperate conditions generally found between altitudes of 1,200 and 3,400 m (4,000–11,000 ft). At 1,300 m (4,300 ft) above sea level, the elevation of Kāthmāndu, the rainy season lasts from June to October; 80% of annual precipitation falls during this monsoon season. Colder weather follows, lasting until the middle of March, when the warm season begins. The warm season increases in intensity until broken by the rains, which account for precipitation of about 150 cm (60 in) annually. Temperatures in Kāthmāndu in January range from an average minimum of 2°C (36°F) to an average maximum of 18°C (64°F); the July range is 20–29°C (68–84°F). Northward of the Kāthmāndu Valley, a subalpine zone continues to altitudes of about 4,300 m (14,000 ft); above that elevation, the country is covered with snow during the long winter, and extreme cold is experienced in the upper Himalayas.

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

The wide range of climate accounts for correspondingly marked contrasts in flora and fauna between different regions of the country. In the south, the sal (the wood of which is used for railroad ties), sisu, and other subtropical trees are abundant in forests; in the extreme north, junipers are seen even at the altitude

of the glacial moraines. Many kinds of conifers also exist in the alpine zone, along with the yew, various hollies, birch, dwarf rhododendrons, and other alpine flora.

Dominant in the Langtang Valley are the chir pine, willow, alder, and evergreen oak. Blue pine and silver fir are frequent in the subalpine zone, which also supports tree rhododendrons—magnificent plants often reaching a growth of 12 m (40 ft). Ground orchids, lilies, yellow and blue poppies, and crimson anemones are prevalent in central Nepal. The profusion of wild flowers extends to very high altitudes; at 5,200 m (17,000 ft), several varieties of primula, pink and white cotoneaster, and white erica have been gathered, along with many kinds of alpine mosses and ferns.

The tiger, hyena, and jackal still exist in southern Nepal, although in decreasing numbers. Rhesus monkeys and a variety of other small jungle mammals and rodents are common. At middle altitudes are found the black bear, several species of cats, squirrel, hare, deer, and antelope. Higher in the mountains, wild sheep and goats, marmots, and a species of tailless mouse-hare are numerous. Small black spiders were found at 6,900 m (22,500 ft) on rocky ledges traversed by the Mt. Everest expedition of 1953. Birds of Nepal include the green finch, dove, woodpecker, nuthatch, warbler, flycatcher, bulbul, and other familiar species. At about 2,700 m (9,000 ft) are found the hill partridge, pheasant, yellow-backed sunbird, minivet, and many of the flowerpeckers; the redstart, pipit, wagtail, snow pigeon, snowcock, and golden eagle thrive in both the alpine and subalpine zones.

## 5 ENVIRONMENT

Nepal's environment has suffered the effects of agricultural encroachment, deforestation and consequent soil erosion, and contamination of the water supply. Between the mid-1960s and the late 1970s, forestland declined from 30% to 22% of the total area, mainly because of the felling of timber for firewood, which supplies over 90% of Nepal's fuel requirements. Moreover, it is estimated that erosion causes the loss of about 240 million cu m of topsoil each year.

All of Nepal's forests were nationalized in 1957, but reforestation efforts have been minimal. A forest conservation program, begun in 1980, includes the establishment of village tree nurseries, free distribution of seedlings, and provision of wood-burning stoves of increased efficiency. By 1985, however, deforestation averaged 324 sq mi per year, while reforestation was only 4,000 hectares (9,900 acres) per year. An additional 4.4% of forest and woodland were lost between 1983 and 1993. The FAO estimates that at the present rate of depletion, the forests will be virtually wiped out by 2015.

Air and water pollution are significant environmental problems in Nepal. According to United Nations sources, the nation produces 18,000 tons of carbon monoxide and 3,300 tons of hydrocarbons per year. Roughly one-third of the nation's city inhabitants and two-thirds of all rural dwellers do not have pure water, and the use of contaminated drinking water creates a health hazard. Untreated sewage is a major pollution factor: the nation's cities produce an average of 0.4 million tons of solid waste per year.

In 2001, 28 of Nepal's mammal species and 27 of its bird species were endangered, as were 7 plant species. Species classified as endangered in Nepal include the snow leopard, tiger, Asian elephant, pygmy hog, great Indian rhinoceros, Assam rabbit, swamp deer, wild yak, chir pheasant, and gavia.

## 6 POPULATION

The population of Nepal in 2003 was estimated by the United Nations at 25,164,000, which placed it as number 43 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age,

with another 41% 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 2.23%, with the projected population for the year 2015 at 32,011,000. The government seeks to reduce the population growth rate through social, cultural, economic, and educational reforms, as well as child health and family planning programs. The population density in 2002 was 162 per sq km (420 per sq mi). Population distribution is uneven, with about 45% of all Nepalese concentrated in the hilly central region, 47% in the fertile Terai plain, and only 8% in the mountains.

It was estimated by the Population Reference Bureau that 12% of the population lived in urban areas in 2001. The capital city, Kāthmāndu, had a population of 669,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 5.1%.

## 7 MIGRATION

Nearly 20,000 Tibetans arrived in Nepal between the Chinese annexation of Tibet in 1959 and 1989. Hundreds of thousands of Nepalese were believed to be working in India in the 1980s, and over 100,000 Indians were working in Nepal, particularly in the garment industry and on the building of highways.

An influx of Bhutanese refugees into Nepal began in late 1991 and peaked in 1992; the flow of new arrivals has slowed since 1997. As of May 1997, there were 91,000 refugees and asylum seekers from southern Bhutan. As of 1999, there were 96,000 Bhutanese in seven refugee camps in eastern Nepal. In 2000, the net migration rate was -1.1 per 1,000 population. The total number of migrants in that year was 619,000 including refugees. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

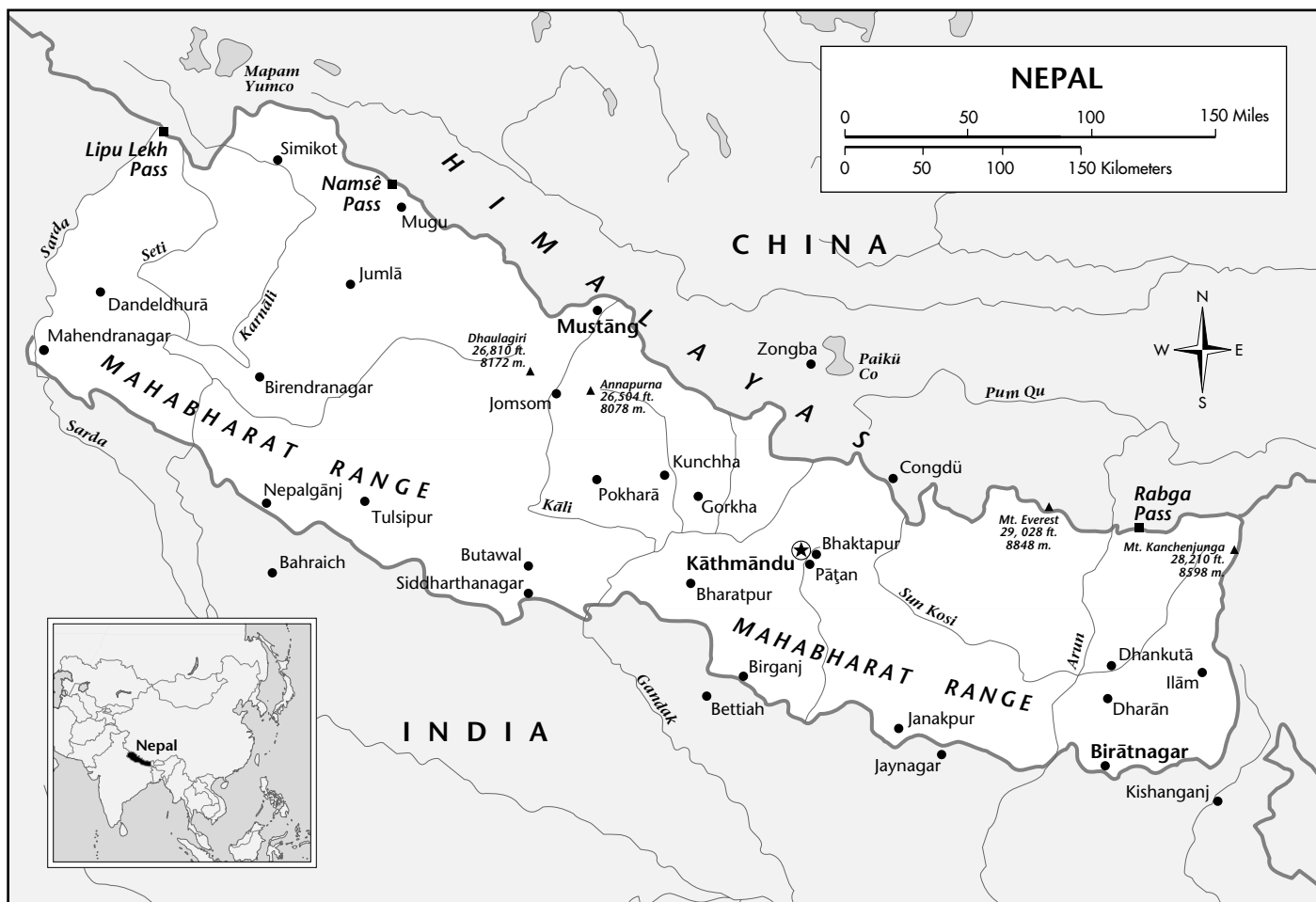
Nepal consists of two primary ethnic elements: Mongoloids, who migrated to Nepal by way of Tibet, Sikkim, Assam, and northern Bengal; and Indo-Aryans, who came from the Indian plains and from the sub-Himalayan hill areas to the west of Nepal. There are also small remnants of Dravidian tribes. Bhotas, of Tibetan origin, are the principal occupants of northern Nepal. In the central valley, Newars and Murmis predominate, the former being responsible for most of the agriculture and trade. Less numerous groups include Gurungs and Magars in west-central Nepal and Kirantis and Rai in the east. Sherpas, a Himalayan people, have become well known as guides for mountain-climbing expeditions.

## 9 LANGUAGES

Nepali is the official language, although some 20 different languages divided into numerous dialects are spoken. Nepali is spoken by about 90% of the population and is the language for most intertribal communication; it is used in government publications and has been the language of most of the written literature since the Gurkha unification of Nepal. More than 11% of the people speak Maithili as their first language, 7.6% Bhojpuri, 4% Tharu, and about 3% Newari and Tamang each. Except in primary schools, where children are taught in their own language, Nepali is the medium of instruction. English is taught as a second language in secondary schools and colleges and is widely understood in business and government circles.

## 10 RELIGIONS

Hinduism and Buddhism exist side by side in Nepal and to some extent are intermingled. The importance of both in the national life is everywhere manifest; more than 2,700 temples and shrines have been counted in the Kāthmāndu Valley alone, while innumerable others are scattered along trails and roads extending to the most distant mountain passes. Bodhnath and Shambunath are famous Buddhist temples. The ancient temple of



LOCATION: 26°20' to 30°16' N; 80°15' to 88°15' E. BOUNDARY LENGTHS: China, 1,236 kilometers (772 miles); India, 1,690 kilometers (1,046 miles).

Chandragiri is dedicated to both religions. The Bagmati River, flowing through central Nepal, is considered sacred and is visited by pilgrims, as are certain mountains and lakes. The constitution does not establish a state religion but does describe the nation as a "Hindu Kingdom."

A 2002 report indicates that about 81% of the population are nominally Hindu while 11% are Buddhist. Muslims constitute about 4% of the population. Minorities include Christians, Baha'is, Jains, and Kirants (followers of an indigenous animist religion). The constitution forbids proselytizing.

## 11 TRANSPORTATION

Nepal's ratios of road mileage to area and to population are among the lowest in the world, and the principal means of land transport is by porters with pack animals. The main highways are the 190-km (118-mi) road that penetrates the Kathmandu Valley, connecting it with the Indian border; the 87-km (54-mi) road between Kathmandu and Kodari on the Tibetan (Chinese) border, which was severely damaged by flooding in late 1982 and was later rebuilt with Chinese assistance; the 862-km (536-mi) east-west Mahendra Highway; and the 200-km (124-mi) Kathmandu-Pokhara highway, which is being extended to Surkhet. In all, Nepal had 13,223 km (48,217 mi) of roadway in 2002, of which 4,073 km (2,531 mi) were paved.

There are no waterways in Nepal. The only practical seaport for goods bound for Kathmandu is Calcutta in India.

Nepal had a total of 59 km (37 mi) of railways in 2002, all in Kosi close to the Indian border. A narrow gauge railway, opened in 1927, runs from Jayanagar, in India, to Janakpur, a distance of 52 km (32 mi), of which 10 km (6 mi), running from Raxaul, India, to the frontier town of Birganj, is government owned. An electrically driven ropeway, inaugurated in 1925 and improved with US aid in 1962, carries 25 tons an hour a distance of 43 km (27 mi), to a height of nearly 1,400 m (4,500 ft) from Hetaura to Kathmandu.

Much of Nepal is easily accessible only by air. In 2001 there were 45 airports, of which 9 had permanently surfaced runways. The leading air terminal is Tribhuvan airport at Kathmandu. Domestic flights are operated by the Royal Nepal Airlines Corp., which also schedules flights to Great Britain, Germany, India and eight other Asian countries. In 2001, 641,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Fact, myth, and legend are intertwined in Nepal's historical literature, which, in the Vamshavali, traces the origins of the country in the distant past when Nepal was allegedly founded by Ne-Muni and derived its name from this source. A reliable chronology can be established only after the conquest of Nepal by Harisinha-deva, rajah of Simraun in about 1324. Under the Malla dynasty, Nepal was administered in four separate states:

Banepa, Bhadgaon (now Bhaktapur), Kantipur (modern Kāthmāndu), and Lalitpur (now Patan).

Prithwi Narayan Shah, the ruler of Gorkha, a small principality west of Kāthmāndu, established the modern kingdom of Nepal in 1768 by incorporating the Kāthmāndu Valley into his domain and unifying with it many small independent principalities and states. Under his descendants, most of the present boundaries of Nepal were established and Hinduism was introduced from India as the official religion.

Nepal came in contact with the influence of larger powers outside South Asia in the late 18th century as a consequence of the British East India Company's conquest of India to its south and a trade dispute with Tibet that led to a Nepalese confrontation with China. Peace was imposed by China in 1792, after Chinese forces had invaded, then withdrawn from Nepal. In the same year, a commercial treaty was ratified between Britain and Nepal. Relations with the British in India remained peaceful until 1814 when a border dispute led to inconclusive hostilities between Nepal and the British East India Company. When the fighting ended two years later, Nepal's independence was preserved in an agreement in which Nepal yielded a large piece of territory to the Company on its southern border and agreed to the establishment of a permanent British resident at Kāthmāndu.

The 1816 agreement (reaffirmed by a formal treaty of friendship between Nepal and Great Britain in 1923) also laid the groundwork for more than a century and a half of amicable relations between Britain and Nepal. Included under the agreement was Nepalese approval for British recruitment of Nepalese Gurkha mercenaries for the British-officered Indian army. During the Indian Mutiny of 1857, Nepal's Rana prime minister sent some 12,000 additional Nepalese troops in support of British garrisons; he also offered troops to US president Abraham Lincoln in 1866 during the US Civil War. Over the years, the Gurkha regiments serving in the British Indian army (and after 1947 under both Indian and British flags) won renown for their bravery, skill, and endurance—in Afghanistan in 1879 and Tibet in 1904, in Europe, Asian, and Africa in the 20th century's two world wars, in the UN action in the Belgian Congo in the 1960s, in India's conflicts with China and Pakistan, and in 1982, in Britain's conflict with Argentina over the Falkland Islands.

In 1846, Shumshere Jung Bahadur (Rana) became Nepal's de facto ruler, banishing the king and ruling as regent for the king's minor heir. The prime ministership became a hereditary office in his Rana family, not unlike the Tokugawa Shogunate in Japan, ruling successively until 1951. Following the end of World War II, the termination of British rule on the South Asian subcontinent in 1947 caused deep stirrings of change in Nepal. Resentment grew against the autocratic despotism of the Ranas, who—as regents—had kept successive monarchs virtual prisoners. A political reform movement, begun in 1946 with the founding of the Nepali Congress Party on the model of the Indian Congress Party, won the support of King Tribhuvana Bir Bikram Shah, but in a power struggle in 1950, the king was forced to flee from the Ranas to India. With Indian support, insurgents began operations against the Rana government until, with the mediation of Indian Prime Minister Nehru, a political compromise was reached that returned the king to Kāthmāndu and ended a century of hereditary Rana family rule. By late 1951 a new government took office, headed by Matrika Prasad Koirala, with his brother, a co-founder of the Nepali Congress Party (NC).

Political life in Nepal in the years since the restoration of the monarchy in 1951 has been dominated by the struggle between the monarchy and the country's political elements to define the terms under which they will co-exist and bring the country into the modern world. Six different cabinets, each lacking popular support and riddled with dissension, held office in rapid succession between 1951 and 1957, and in 1957-58, King

Mahendra Bir Bikram Shah, who had succeeded to the throne upon the death of his father in 1955, ruled directly for a period of months. In April 1959, he promulgated a democratic constitution, providing for a constitutional monarchy, two houses of parliament, and a cabinet and prime minister responsible to the lower house, in the Westminster model. Bisweswar Prasad (B. P.) Koirala of the NC assumed office on 24 July 1959 as first prime minister under this constitution.

Less than 18 months later, on 15 December 1960, the king suspended the constitution, dissolved parliament, dismissed the cabinet, and again established his own government, this time with an appointed council of ministers. He ruled directly until April 1962 when he promulgated a new constitution establishing an indirect, non-party system of rule through a tiered system of panchayats (council) culminating in a National Panchayat. Five years later, after growing agitation and hit-and-run attacks by NC elements based in India, the king—again under Indian pressure—promulgated a series of amendments introducing gradual liberalization.

In January 1972, Mahendra died suddenly and was succeeded by his 27-year-old son, Birendra Bir Bikram Shah Dev. The young monarch, who had attended Harvard University in the United States, was committed to maintaining the authority of the monarchy while keeping Nepal on the course of gradual political and social reform set by his father. Student demonstrations in early 1979 led him to call for a national referendum on whether to continue the panchayat system or create a more conventional multi-party system. With the king promising further liberalization, the existing panchayat system was endorsed by 55% of the voters in May 1980, and later that year, the king's subsequent constitutional amendments established direct elections and permitted the Panchayat, not the king, to choose the prime minister. The king's failure to lift the ban on political parties led party members—ineffectively—to boycott the elections of 1981 in which Surya Bahadur Thapa, a former civil servant who had become prime minister in 1979, was reaffirmed in June 1981 and continued in office until 1983 when he was replaced by Lokendra Bahadur Chand following the government's loss of its majority on an opposition "no confidence" motion.

In non-party elections to the National Panchayat in May 1986, again in the face of a major party boycott, a majority of the incumbents were defeated, and Marich Man Singh Shrestha became prime minister. Most new members were opponents of the panchayat system, foreshadowing a new struggle between the king and his legislators. By early 1990, the NC and the United Leftist Front (ULF), a Communist alliance of seven parties, again went to the streets, organizing agitations that forced the king to make further constitutional changes in April; included were an end to the ban on political parties and their activities. The king dissolved the National Panchayat and appointed NC president Krishna Prasad Bhattarai interim prime minister, who was assisted by a cabinet made up of members of the NC, the ULF, independents, and royal appointees. A Constitutional Reforms Commission produced a new constitution in November 1990 that ended the panchayat era and restored multi-party democracy in a constitutional monarchy. In May 1991, the first openly partisan elections in 32 years were held, resulting in an NC majority in the new House of Representatives which chose Girija Prasad Koirala as prime minister. As of December 2002, Koirala had held the office of prime minister four times in his career.

On 1 June 2001, the former Crown Prince Dipendra Bir Bikram killed most of the royal family with an assault rifle as they sat around a dinner table. Although many theories circulated as to the motive for the killings, it is generally accepted that he turned against his family because his mother did not approve of a young woman as his choice of bride. Dipendra murdered his father, King Birendra, his mother, Queen Aishwarya, his sister,



Princess Sruti, his brother, Prince Nirajan, and five others. He then shot himself in the head. Dipendra was anointed king while in a coma; two days later he died, and his uncle, Gyanendra Bir Bikram Shah Dev, was named king.

In addition to the slayings, Nepal has been embroiled in civil war. In 1996, a “people’s war” was launched by several Maoist organizations in the central-western hill districts of Nepal. The Maoists’ aims are the removal of the constitutional monarchy and the eradication of rural poverty. As of December 2002, more than 7,000 people had been killed in the fighting. The insurgents call themselves the Communist Party of Nepal (Maoist), modeled after Peru’s Maoist Shining Path guerrillas. As of December 2002, they controlled 40% of Nepal, and brought the economy and political system to a virtual standstill. They are led by Chhabi Lal Dahal, or “Prachanda,” who is seen by his followers as charismatic and by his enemies as fanatical. In July 2001, the Maoists came into direct combat with the Nepalese army for the first time, and stepped up their campaign of violence. Koirala, who was prime minister at the time, resigned after losing support from his ruling coalition, and alluded to the violence as a reason why the country needed to work for national consensus. Sher Bahadur Deuba became prime minister. In November 2001, after more than 100 people were killed in four days of violence, the king called a state of emergency. The emergency measures restricted freedom of the press, as well as freedom of assembly, expression and movement. Suspects could be detained for three weeks without charges.

In February 2002, international donor agencies and individual nations pledged US\$2.5 billion to Nepal, and the government increased military activity against the insurgents. In April, more than 300 people were killed in two of the most serious attacks of the rebellion, and the Maoists ordered a five-day national strike. Parliament was dissolved on 22 May, and national elections were scheduled for 13 November. In October, Prime Minister Deuba asked the king to put off the national elections for a year due to the mounting Maoist violence. King Gyanendra dismissed him and indefinitely put off the elections. Lokendra Bahadur Chand was appointed prime minister until elections are held.

In the area of foreign policy, Nepal has remained generally nonaligned, maintaining friendly relations with China and with India, despite efforts to minimize traditional Indian influence and the occasional clash of policies on matters relating to trade. In 1961, Nepal signed an agreement with China (which had earlier absorbed Tibet) defining the boundary between the two countries along the traditional watershed. Nepal was uninvolved in the 1962 hostilities between India and China on portions of the border to the east and west of Nepal. One result of this conflict however, was India’s occupation of Kalapani, a border region of northwestern Nepal which, as of December 2002, was still a matter of dispute with India. The refugee issue of some 100,000 Bhutanese in Nepal remained unresolved as of December 2002. Ninety percent of these displaced persons are housed in seven United Nations Offices of the High Commissioner for Refugees (UNHCR) camps. Nepal also has pursued friendly relations with the great powers and has been the recipient of economic aid from India, the United States, the former USSR, and the World Bank.

### 13 GOVERNMENT

The 1990 constitution, Nepal’s third (with variations) since 1951, established a constitutional monarchy in which the legislature consists of the king and two houses of parliament, the lower house, called the House of Representatives and the upper house, the National Council. The House of Representatives has 205 members elected to terms of five years; at least 5% of the contestants from every party must be women. The National Council has 60 members, 35 of whom are elected by the House of Representatives. The National Council members included three

elected women as of 2003. Suffrage is universal at 18 years of age.

The National Council is a permanent body, retiring one-third of its members every two years in elections that take place in May of even-numbered years. The king appoints 10 of the 60 members in the National Council. The remaining 15 members are selected by an electoral college.

In May 2002, parliament was dissolved, and elections were scheduled for 13 November of that year. However, King Gyanendra removed his prime minister who had called for a postponement of national elections for a year due to mounting Maoist violence. King Gyanendra subsequently indefinitely postponed the elections, which, as of December 2002, had not been held.

Nepal’s supreme court chief justice is appointed by the king on recommendation of the Constitutional Council.

For development purposes, the country is also divided into five regions by geography (Eastern, Central, Western, Mid-Western, and Far-Western), each of which serves also as a parliamentary constituency, electing three members of the lower house. In 1992, the government undertook a reform of the civil service, lowering the age of retirement from 60 to 58, committing itself to reducing its overall size by 25% by 1993, and engaging in wholesale dismissals of those with 20 or more years of service.

The king is Gyanendra Bir Bikram Shah Dev, the descendent of an unbroken Rajput line going back more than 200 years. Prime Minister Lokendra Bahadur Chand was named prime minister on 11 October 2002, after King Gyanendra removed Prime Minister Sher Bahadur Deuba on 4 October 2002.

### 14 POLITICAL PARTIES

The 1962 constitution originally prohibited the formation of political parties and associations, even though political groups continued to exist and operate underground, at times on a quasi-legal basis. Parties were legalized in 1990 and now operate freely in Nepal’s multi-party constitutional monarchy. The main party through Nepal’s modern history—providing nearly all of the country’s prime ministers even when the ban on parties prohibited party activity—is the Nepali Congress Party (NC). Inspired by the socialist wing of the Indian National Congress and founded by the Koirala brothers, M. P. and B. P., in 1946, the party led Nepal’s first democratic government in 1959. Most of its leaders were imprisoned during the 1960s, but with Indian help, the party operated from India, mounting hit-and-run attacks and maintaining an underground presence in Nepal.

The NC leadership led the opposition to King Mahendra’s tiered panchayat system of indirect government. Although NC leaders called for a boycott of the May 1986 elections to the National Panchayat, 1,547 candidates ran for office, and only 40 of the previously elected members retained their seats. After these elections, a Democratic Panchayat Forum (DPF) was formed by NC members to mobilize voters on a non-party basis to counter the influence in local elections of the Communist Party of Nepal (CPN), whose members had won 16 seats in the National Panchayat.

The communist movement in Nepal has been severely fragmented for years by personal and ideological schisms, some of them occasioned by splits and the loss of orthodoxy in the communist movement worldwide in the 1960s and 1980s. Operating for electoral and agitational purposes in the 1980s as the United Leftist Front (ULF), the Communist Party (CPN) and its several communist allies have since split, fragmenting the movement into a number of splinter parties but leaving the CPN, now reassembled as the United Marxist-Leninists (UML) as the leading opposition party in the parliament. The latest elections to the House of Representatives were held on 3 and 17 May 1999. The results were: Nepali Congress (NC), 113 seats; Communist Party of Nepal/United Marxist-Leninist (CPN/UML), 69 seats;

National Democratic Party (NDP), also called the Rastriya Prajantra Party, 11 seats; Nepal Sadbhavana Party (NSP), 5 seats; Rastriya Jana Morcha, 5 seats; Samyukta Janmorcha Nepal, 1 seat; Nepal Workers and Peasants Party (NWPP), 1 seat. Elections scheduled to be held on 13 November 2002 were indefinitely postponed by the king.

As of December 2002, the prime minister was Lokendra Bahadur Chand, who was appointed by King Gyanendra on 11 October 2002, after the king removed Prime Minister Sher Bahadur Deuba on 4 October 2002.

## 15 LOCAL GOVERNMENT

For centuries, the heads of petty principalities within Nepal exercised local judicial, police, and other powers. Under the panchayat reforms introduced in 1962, the country was divided into 14 zones, which in turn were divided into 75 districts. The zones were directly administered by commissioners appointed by the central government, and the zonal panchayats were executive bodies elected from the 11-member panchayats at the district level, the members of which were in turn selected from village and town panchayats. Each of the 3,600 villages with populations of more than 2,000 and each of the 33 towns with populations over 10,000 also had an 11-member panchayat, as well as its own local assembly.

In April 1990, the partyless panchayat system was abolished as a result of a people's movement organized by the Nepali Congress Party and several leftist parties. However, the country remains divided into 14 zones (headed by appointed commissioners) and 75 districts (under the charge of district officers responsible for law and order, collecting revenues, and setting development priorities). The districts are further divided into smaller units—into municipalities and village development committees (VDC). At present, there are 3,913 VDCs and 58 municipalities in the country. A VDC consists of 9 wards and the municipalities consist from 9 to 35 wards. Municipalities and VDCs are directly elected.

In 1997, a royal decentralization ordinance was enacted that allowed for increased political participation by women. The ordinance called for the reservation of 20% of local government ward seats for women. Women currently hold approximately 32,000 local government seats in Nepal.

## 16 JUDICIAL SYSTEM

Each district has a court of first instance, civil and criminal, as well as a court of appeals and 14 zonal courts. There are five regional courts—at Kāthmāndu, Dhankuta, Pokhara, Surkhet, and Dipayal—to which further appeals may be taken. At the apex is the supreme court in Kāthmāndu, which is empowered to issue writs of habeas corpus and decide on the constitutionality of laws. The court is composed of a chief justice, assisted usually by six other judges, with seven additional judges in reserve; all are appointed by the king. The supreme court is the court of last resort, but the king may grant pardons and suspend, commute or remit sentences of any court. There are separate military courts which generally deal only with military personnel. In 1992, the supreme court ruled that civilians may not be tried in the military courts. In April 2001, the supreme court appointed its first female judge.

The 1990 constitution declared the independence of the judiciary. The supreme court has exercised considerable independence in practice, declaring provisions of the Citizenship Act of 1991 and parts of the Labor Act of 1992 unconstitutional. In 1995 the constitutional court also ruled that the dissolution of the parliament at the request of a former premier minister was unconstitutional.

The 1990 constitution affords a number of procedural safeguards for criminal defendants including the right to counsel

and protection from double jeopardy and from retroactive application of laws.

There is no jury system. Special tribunals hear cases involving terrorism or treason under a treason act.

## 17 ARMED FORCES

The armed forces numbered approximately 51,000 in 2002 including the Royal Guard. There was also a paramilitary police force of 40,000 personnel. The army also included a small air wing of 320 with no combat aircraft or helicopters. Opposition forces consisted of the estimated 5,000-member Communist Party of Nepal. The United Kingdom maintained a small military presence. In 2001, Nepal spent \$51.5 million on defense or about 1% of GDP.

Under separate treaty arrangements going back to 1816, gurkhas of the same mountain stock (especially Magars, Gurungs, Rais, and Limbus) are recruited in Nepal by Great Britain and, since 1947, by the Republic of India. Under British and Indian flags, and with arms, training, and officers provided by their foreign recruiters, gurkhas are among the world's most renowned fighting men with extensive service in all parts of the globe in both world wars and several UN actions of this century.

## 18 INTERNATIONAL COOPERATION

Nepal was admitted to UN membership on 14 December 1955 and is a member of ESCAP and all the UN nonregional specialized agencies except IAEA. It also belongs to the Asian Development Bank and G-77, is a signatory to the Law of the Sea, and has applied for membership in the WTO.

Nepal joined the Colombo Plan group in 1952. In 1985, Nepal joined with six other Asian nations to form the South Asian Association for Regional Cooperation (SAARC); the secretariat is in Kāthmāndu.

## 19 ECONOMY

Despite social and economic reforms begun in the 1950s, Nepal's per capita income was only \$1,100 (PPP) in 1998, and general living standards are low. The economy is based on subsistence agriculture, which engages about 80% of the labor force but is inefficiently organized and limited by a shortage of arable land in relation to population. Eight development plans, extending from 1955 to 1992, have slowly built up the nation's infrastructure. Nevertheless, the industrial sector is still small and dominated by traditional handicrafts, spinning and weaving, and similar occupations. Growth in medium-scale and cottage industry-based production of carpets and garments for export, expanding tourism, and some government-promoted development of heavy industry sustained an average GDP growth rate of over 5% from 1980–88. In 1989/90, Nepal weathered a major trade and transit dispute with India, maintaining a GDP growth rate of 2%, despite the potentially debilitating tariffs suddenly placed on trade with its largest import supplier and external market.

Nepal's economic potential is by no means insignificant. Kāthmāndu Valley and the Terai zone are fertile areas; there is great forest wealth, including valuable medicinal plants such as pyrethrum, belladonna, and ipecac; deposits of several minerals are known to exist; and swift Himalayan rivers offer great possibilities for hydroelectric development.

The principal challenge for the Nepalese is to provide for a rising and unequally distributed population and to achieve material progress without irrevocably depleting the environmental resource base. Structural adjustment measures initiated in 1989 have reduced the regulation of industry and imports, and are supported by similar liberalization in India, to which Nepal's economy is closely tied. However, aggregate economic growth remained sluggish during the early 1990s. Gross domestic product growth declined from 4.6% in 1990/91 to only 2.1% in 1991/92, due in large part to declining

agricultural output following poor weather. Gross domestic product growth averaged an annual rate of 5% between 1988 and 1998. International actors fund more than 60% of Nepal's development budget and account for more than 28% of total budgetary expenditures. In 1995 Nepal joined the South Asian Association for Regional Cooperation (SAARC) in the South Asian Preferential Trade Area, scheduling a free trade area by 2001.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Nepal's gross domestic product (GDP) was estimated at \$35.6 billion. The per capita GDP was estimated at \$1,400. The annual growth rate of GDP was estimated at 2.6%. The average inflation rate 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 41% of GDP, industry 22%, and services 37%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$300 million or about \$5 per capita and accounted for approximately 2.1% of GDP. Worker remittances in 2001 totaled \$409 million. Foreign aid receipts amounted to about \$16 per capita and accounted for approximately 7% of the gross national income (GNI).

Approximately 44% of household consumption was spent on food, 7% on fuel, 5% on health care, and 14% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. The richest 10% of the population accounted for approximately 29.8% of household consumption and the poorest 10% approximately 3.2%. It was estimated that in 1996 about 42% of the population had incomes below the poverty line.

## 21 LABOR

As of 1995, about 80% of the population were subsistence farmers while handicrafts, portage, trade, military service, industry, and government work engaged the remainder. As of 1998, the labor force was estimated to number about 11 million. In 2002, the vast majority, approximately 81% of the workforce, was engaged in agriculture. Most agriculturists are peasant farmers, and there are many wage laborers, but only in the peak seasons. The service sector provides work for 16% of the labor force, and industry accounts for the remaining 3%. There is a severe lack of skilled labor. Among some tribes, women do most of the farm work, while in others, especially among strict Hindus, they do no farming at all. Many occupations are effectively restricted to certain castes, although the practice has been declared illegal. In 2001, the unemployment rate was 47%.

Unions are allowed to organize and strike. The three largest trade unions are associated with political parties, but the government does not restrict union activity. However, the right of a union to strike is limited to nonessential services. About 20% of the workforce is covered by collective bargaining agreements.

Minimum wage rates and working conditions in the small industrial sector are set by the Nepal Factories and Factory Workers' Act of 1959, as amended. In 2002, the minimum wage was \$20 per month for unskilled, \$21 for semiskilled, and \$25 for skilled workers in the organized industrial sector. Wages can be as low as 50% of the minimum in the informal economy and the agricultural sector. The law establishes a minimum employment age of 16 years in industry and 14 years in agriculture.

## 22 AGRICULTURE

In 2001, agriculture provided about 41% of GDP. Only about 19% of the land can actually be cultivated. Regional imbalance and lack of integration also hamper Nepal's agriculture. Although the country produces an overall exportable surplus of food grains, some areas of the country, particularly Kāthmāndu Valley and the hill areas, have a food deficit. Lack of transportation and storage facilities prevents the movement of food grains from the Terai to the hills, with the result that Nepal both exports and imports the same food items.

Agriculture has been hampered by the lack of irrigated land, by the small size of farms (an average of four hectares/10 acres), and by inefficient farming methods. Some of the arable land is still held free of taxation by a few large landowners and farmed by tenants, whose productivity is low. The government has officially abolished tax-free estates (*birta*), eliminated the feudal form of land tenure (*jagira*), set a limit on landholdings, and redistributed the extra land to farm tenants. Its economic plans also include the use of fertilizers, insecticides, improved seeds, and better implements; the extension of irrigation; and the construction of transportation and storage facilities.

Rice, Nepal's most important cereal, is grown on more than half the cultivated land, mainly in the Terai but also on every available piece of ground in the Kāthmāndu Valley during the monsoon season. In 1999, rice production totaled 3,710,000 tons. Production of maize, grown on the carefully terraced hillsides, was 1,346,000 tons in 1999; land under cultivation with maize was 25% of the area allotted to food grains. The output of wheat in 1999 was 1,086,000 tons; millet, 291,000 tons; and barley, 32,000 tons. Cash crops (with 1998 output) included sugarcane, 1,972,000 tons; potatoes, 1,091,000 tons; linseed, 27,000 tons; jute, 15,000 tons; and tobacco, 4,000 tons. Sugarcane, jute, and tobacco are the major raw materials for Nepal's own industries. Potatoes are grown in Ilam and fruit mainly in Dharan, Dhankuta, and Pokhara. Tea is also grown in Ilam and elsewhere. In 2001, exports of agricultural products totaled \$57.7 million, while agricultural imports amounted to \$232.2 million.

## 23 ANIMAL HUSBANDRY

Livestock, adapted to many uses, forms an essential part of the economy. Livestock accounts for about 30% of gross agricultural output. In farm work, bullocks and asses are largely used. Herds of yaks, cows, and their hybrids, zobos, are grazed in the central valley and to some extent along the borders of the foothill jungles. A few hogs usually are kept on the larger farms. Sheep and goats are used for food and also as pack animals, particularly in the distribution of salt over the trade routes; the sheep also supply a valuable type of wool.

In 2001, Nepal had an estimated 6,983,000 head of cattle, 3,624,000 water buffalo, 851,000 sheep, 6,478,000 goats, and 912,000 hogs. Modern poultry farms are operated principally by the Newaris, who carry on most of the agriculture in the Kāthmāndu Valley. There were about 9.8 million chickens in 2001, when 13,500 tons of poultry meat were produced. Traditionally, butter and cheese are among the leading exports of Nepal. Livestock products in 2001 included an estimated 342,000 tons of cow's milk, 20,000 tons of butter and ghee, and 614 tons of wool (greasy basis).

## 24 FISHING

The commercial fish catch amounted to 16,700 tons in 2000 (up from 5,281 tons in 1991). In the Terai are many small fish ponds and several government fish farms. Common fish species are carp, gar, and murrel.

## 25 FORESTRY

In 2000, forests covered an estimated 27.3% of Nepal's total land area. Timber cutting has been contracted out to private firms. About 95% of the 13.4 million cu m (473 million cu ft) of roundwood cut in 2000 was for fuel.

In 1961, the government established a department of medicinal plants to encourage Nepal's commercially important herb exports. There are regional herbal farms at Kāthmāndu and Nepalganj. There is also a royal research laboratory for drug analysis.

## 26 MINING

Although mining in Nepal was an ancient occupation, the country's mineral resources have been little exploited. Mining and quarrying accounted for 0.5% of GDP, and was dominated by the production of cement, red clay, coal, limestone, dead-burned magnesia, and marble. Mineral commodities accounted for 8% of Nepal's export earnings. In 2000, the country also produced small quantities of agricultural lime, quartz, quartzite, salt, sand and gravel, stone, talc, and tourmaline. A lead and zinc deposit near Lari had reserves of 2 million tons, and there were known deposits of iron, copper, graphite, cobalt, mica, and slate. Development plans included the encouragement of small-scale mining, and provided for continuing mineral surveys.

## 27 ENERGY AND POWER

Although Nepal's hydroelectric potential is great and development has been rapid in recent years, the kingdom still lacks an adequate power supply. Only 15% of the population had access to electricity in 2000. It is estimated that only about 1% of Nepal's hydroelectric potential had been activated as of 1999. In 2001, total installed capacity was 388,000 kW. Production in 2000 was 1,454 million kWh, of which 90.4% was from hydropower and 9.6% from fossil fuels. Consumption of electricity in 2000 was 1.4 billion kWh. In the same year, 57% of commercial energy consumption was from petroleum, 24% from hydropower, 14% from coal, and 5% from other sources. There is an integrated grid system in central Nepal.

India has joined with Nepal in the construction of hydroelectric and irrigation projects on the Kosi and Gandak rivers. China has helped build a 10 MW plant on the Kosi as well. India has also constructed a 14 MW hydroelectric station at Devighat, in central Nepal. A 60 MW hydroelectric project on the Kulekhani, funded by the IBRD, Kuwait, and Japan, has been completed. The 144 MW Kaligandhaki "A" on the Kaligandhaki River in central Nepal began operations in 2002. In the same year, a contract was signed for construction of the 750 MW West Seti project, slated for completion in five years. Exploration for oil and natural gas deposits began in the mid-1980s. An exploration concession won by Texana Resources in 1998 was the first such venture in almost a decade.

## 28 INDUSTRY

Until the 1980s, modern industry was almost nonexistent; only 0.66% of Nepal's GDP was derived from industry in 1964/65. Since then, industrial development has been given emphasis in economic planning. Manufacturing as a percent of total GDP at current factor cost rose from 4.2% in 1980 to 6.1% in 1990 to 9.2% in 1995 to an estimated 22% in 2000. However, manufacturing is a sector that has been hit particularly hard by the Maoist insurgency and the intensification of violence since 2001. The CIA estimates that the industrial production growth rate for 1999/2000 was 8.7%. However, this had dropped to less than 1% for 2001/02 according to IMF estimates.

Starting in the 1930s, a number of public enterprises (PEs) were established by the government with an aim of building an industrial and manufacturing base. About 62 PEs in all were

established, close to half in the industrial sector, with others in the trading, service, public utility and financial sectors. The oldest surviving PE is the Biratnagar Jute Mills (BJM), set up in 1936. The jute industry has been in decline since 1966. In 2002 BJM was being operated by a private conglomerate on terms of a five year lease from the government. PEs in the industrial sector include cement factories, brick factories, sugar mills, textile mills, jute products factories, tool factories, foundries, and industrial chemical and fertilizer factories. From the early 1990s, there have been planned campaigns to reform and privatize the PEs. By the beginning of the Ninth Five-Year Plan (1997–2002), 16 PEs, over half industrial, had been handed over to private owners, and four had been shut down. A list of 30 PEs, 13 in the industrial sector, were scheduled for privatization during the Ninth FYP, but, in fact, only one, the Nepal Tea Development Corporation, has been privatized. The slowdown of the reform is attributable to both the outbreak of the Maoist insurgency in 1996 and a growing resistance to the privatization program from many sides, but particularly from workers' unions who perceive jobs as threatened. The PEs were not originally set up as commercial enterprises, and most do not even maintain updated accounts that would allow an auditor to assess their market viability. Analysts generally agree, however, that they are inefficiently overstaffed with low skill labor, and that currently most of the industrial PEs have a negative worth. The IMF estimates that net profits from the PE sector as a whole plunged from around NR3 billion (about \$44 million) in 1998/99 to NR240 million (about \$3.23 million) in 2000/01, despite continued government transfers and investment. That the figure remained positive is due virtually entirely to the profitability of three public utility PEs. Some of the known liabilities in the industrial sector include wage arrears that reached sixteen months for the Agricultural Tool Factory, and four months for the Lumbini Sugar Factory. According to a recent study of eight industrial PEs reported by the IMF, employees of these companies are owed for gratuity, sick and home leaves, medical allowance and insurance premiums to the amount of about NR15.2 billion (about \$204 million or 3–4% of Nepal's GDP). There are also large arrears to banks and suppliers, but monitoring mechanisms are insufficient to make reliable estimates. In February 2002, the government set up a special financing facility at 3% interest to encourage commercial banks to provide concessional loans to ailing industries, particularly those in the garment and hotel industries, which through exports and tourism are major earners of foreign exchange.

According to the CIA, major industries in Nepal include tourism, carpets, textiles, small rice jute, sugar, and oilseed mills; cigarettes, cement and brick factories. Aside from small-scale food processing (rice, wheat and oil mills), light industry, largely concentrated in southeastern Nepal, includes the production of jute goods, refined sugar, cigarettes, matches, spun cotton and synthetic fabrics, wool, footwear, tanned leather, and tea. The carpet, garment and spinning industries are the three largest industrial employers, followed by structural clay products, sugar and jute processing. Sugar production was 49,227 tons in 1995, jute goods, 20,187 tons; and soap, 23,477 tons. That year, 14.7 million m of synthetic textiles and 5.06 million m of cotton textiles were produced. Industrial production from agricultural inputs included 20,800 tons of vegetable ghee, 16.76 million l of beer and liquor, 9 billion cigarettes, and 2,351 tons of tea.

Heavy industry includes a steel-rolling mill, established in 1965, which uses imported materials to produce stainless steel. During the 1980s, the government gave priority to industries such as lumber, plywood, paper, cement, and bricks and tiles, which make use of domestic raw materials and reduce the need for imports. Production by heavy industries in 1995 included 326,839 tons of cement and 95,118 tons of steel rods.

## 29 SCIENCE AND TECHNOLOGY

The only advanced technology is that brought in under the various foreign aid programs. Foreign technicians provide training in cottage industries, and local workers are trained at the Cottage Industry Center in Kāthmāndu. In 1982, the Royal Nepal Academy of Science and Technology was established at Kāthmāndu to aid in socioeconomic development. The National Council for Science and Technology aims to formulate science and technology policy, promote scientific and technological research, coordinate research among ministries and Mehendra Sanskrit University, and disseminate information to the public. Tribhuvan University has faculties of science and technology, medicine, agriculture and animal science, engineering, and forestry. In 1987–97, science and engineering students accounted for 13% of college and university enrollments.

## 30 DOMESTIC TRADE

For the six and one-half years of the Maoist insurgency in Nepal domestic trade has been severely hampered in rural areas. For many Nepalese, local trade is a part-time activity, limited to such products as cigarettes, salt, kerosene, and cloth. Marketing centers are along the main trails and are supplemented by small local markets. Distribution channels generally move from manufacturer, to distributor, to retailer. Poor communications facilities make extensive domestic trade impractical. However, one major impediment, the local tax on trade called “octroi,” was eliminated in 1997. Also, in the early 1990s, domestic airline routes were privatized, quadrupling domestic air traffic.

Most shops are open from 10 AM to 8 PM. Businesses and government offices generally operate from 9 AM to 5 PM. Most stores and businesses are closed on Saturdays.

## 31 FOREIGN TRADE

Traditionally, Nepal's foreign trade was limited to Tibet and India. After 1956, Nepalese trading agencies in Tibet were confined to Xigaze, Gyirong, and Nyalam, with Lhasa, Xigaze, Gyangze, and Yadong specified as markets for trade. In 1980, however, Nepal and China agreed to open 21 new trade routes across the Tibetan frontier. Treaty arrangements with China strictly regulate the passage of both traders and pilgrims in either direction across the border. Up until 1989, treaty agreements between India and Nepal allowed for unrestricted commerce across 21 customs posts along the border, and duty-free transit of Nepalese goods intended for third-party countries through India. In 1989, a breakdown in the treaty renewal negotiations resulted in retaliatory actions on both sides. India's share of Nepali exports plummeted from 38% in 1986/87 to 9% in 1989/90. India's share of the country's imports declined by about 25% to 50%. Despite the severe shock sustained by the Nepali economy, the signing of a new interim agreement in 1990 prevented a prolonged crisis, helping to fuel a robust recovery in export growth as exports increased by 28% in 1990/91 over 1989/90, and again by 35% in 1991/92.

Under the renewal of the bilateral trade treaty with India in 1997, Nepali goods entered India essentially duty free and quota free. As a result, exports to India grew for four years, from 1997 to 2001, at an average rate of 42% a year. The most recent India-Nepal Treaty of Trade, signed in March 2002, continues to allow Nepali manufactures to enter the Indian market on a nonreciprocal, preferential, or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufactures can have up to 70% foreign content instead of the international norm of less than 50%). However, it places quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than recent Nepali exports to India.

The imposition of some non-tariff barriers (NTBs) by India is just one factor in the estimated recent decline in the growth rate of Nepal's exports. Other factors are the damage to production caused by the intensification of the country's Maoist insurgency in 2001, the global economic slowdown, and a rapid decline in demand from Nepal's main third-country destinations, the United States and Germany, in the post-9/11 atmosphere. The end of the 1990s saw robust growth in Nepal's exports, which increased nearly 12% in 1997/98, nearly 18% in 1998/99 and 37.4% in 1999/2000. The export growth rate fell, however, to 4.6% in 2000/01, according to the IMF. In 2001/02, exports are estimated to have actually declined by 15%.

The CIA reports that for 2000/01, recorded exports from Nepal were an estimated \$757 million (f.o.b.) and that imports for this period were \$1,600 million, indicating an apparently unsustainable merchandise trade deficit of \$843 million, or 111.5% of exports. However, the figure for exports does not include unrecorded border trade with India, including substantial gold smuggling.

The major export destinations in 2000/01 were India (48%), the United States (26%), and Germany (11%). Over the past decade, exports to India, while continuing to account for about half of Nepal's exports, have soared in value and become increasingly diversified as Nepal's manufactures have carved out niches in the Indian market. Exports to the United States consist mainly of apparel, including pashmina (the Indian name for cashmere) products, whereas exports to Germany are dominated by woolen carpets. In the wake of 9/11, exports to the United States declined 15% in 2001, after an increase of 30% in 2000. For 2001/02, the IMF estimates that exports to countries other than India declined more than 40% due to the combination of external slowdown and internal supply disruptions.

The major import sources in 2000/01 were India (39%), Singapore (10%), and China/Hong Kong (9%). Leading imports were gold, machinery and equipment, petroleum products, and fertilizer.

After increasing about 23% between 1998/99 and 1999/2000, the import growth rate slowed to 3.6% in 2000/01. The IMF estimates that imports declined 9% in 2001/01.

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

Consumer goods	7.4%
Food	11.6%
Fuels	16.3%
Industrial supplies	30.7%
Machinery	11.3%
Transportation	15.6%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
India	318	576	-258
United States	192	24	168
Germany	106	21	85
Japan	10	41	-31
China (inc. Hong Kong)	7	213	-206
Switzerland	6	143	-137
Singapore	3	113	-110
Korea	1	39	-38
United Arab Emirates	n.a.	28	n.a.
Thailand	n.a.	31	n.a.

## 32 BALANCE OF PAYMENTS

Despite large recorded trade deficits, Nepal often maintains a surplus in its current account thanks to surpluses in services (including tourism), official aid transfers, and increasingly large remittances from Nepalese living abroad, and in spite of

unrecorded trade and smuggling across the Indian border. The IMF reported small surpluses on Nepal's current account of \$24 million and \$28 million respectively, for the fiscal years 1998/99 and 1999/2000, even exclusive of official aid transfers. Adding in official transfers brought the total current account surpluses for these years to \$98 million and \$114 million, respectively, representing 2% to 3% of GDP. Nepal's overall balance of payments was positive for the fiscal years 1998/99 and 1999/2000, at \$136 million and \$192 million, respectively, as outflows of capital and other payments were estimated to be more than offset by inflows of capital grants and official disbursements. However, in 2001/02, by IMF's preliminary estimate, Nepal's overall balance of payments was a negative \$77 million (1.4% of GDP) due primarily to a falling off in foreign aid. Official reserves held by the central bank in 2000/01 were initially estimated to be sufficient to cover 6.7 months of imports, just above the 6 months' coverage deemed financially prudent. However, of these reserves, about \$290 million were being held in Indian rupees, with about \$732 million in convertible currencies, enough to cover only 4.8 months of imports. Total external debt in FY 2000/01 was \$2.55 billion, about 46% of annual GDP. Nepal's debt service ratio (the ratio of annual payments on the debt to annual exports) was a low 6% in this period, reflecting the highly concessional nature of its external finance. Nepal's debt has never been rescheduled. Its last arrangement with the IMF was in October 1992 under the Extended Structural Adjustment Facility (ESAF), for a line of credit of SDR 33.5 million—47% of Nepal's quota—of which only half, SDR 16.79, was ever drawn down by Nepal. The obligation was scheduled to be fully repaid by 2006, with payments of SDR 2.4 million in 2003; SDR 0.8 million in 2004; SDR 0.2 million in 2005; and SDR 0.2 million in 2006.

The International Monetary Fund (IMF) reports that in 2001 Nepal had exports of goods totaling \$721 million and imports totaling \$1.49 billion. The services credit totaled \$413 million and debit \$215 million. The following table summarizes Nepal's balance of payments as reported by the IMF for 2001 in millions of US dollars. The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Nepal's exports was \$757 million while imports totaled \$1.6 billion resulting in a trade deficit of \$843 million.

<b>Current Account</b>	<b>-339</b>
Balance on goods	-765
Balance on services	199
Balance on income	12
Current transfers	216
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-217</b>
Direct investment abroad	...
Direct investment in Nepal	...
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	11
Other investment liabilities	-228
<b>Net Errors and Omissions</b>	<b>257</b>
<b>Reserves and Related Items</b>	<b>300</b>

### 33 BANKING AND SECURITIES

The central bank of Nepal is the Nepal Rastra Bank (NRB), established under the NRB Act of 1955, which, effective 31 January 2002, was replaced by a new NRB Act designed to give the central bank more autonomy in setting monetary policy and more supervisory authority. The new legislation outlines the procedures for appointing and dismissing the NRB Governor, Deputy Governor and board, as well as procedures for intervening with insolvent financial institutions. Further reforms are expected with the implementation of the Banking and

Financial Institutions Act of 2003 which aims, inter alia, to reduce the government's role as owner and strengthen its role as regulator. Nepal's financial sector has historically been weak and non-transparent, characterized by politically-motivated interference, insider trading, weak management, disruptive unions, an inadequate financial information system, and a deeply entrenched culture of non-payment of loans.

A World Bank report found that as of November 2002 Nepal had 15 commercial banks. The two largest, the Rastriya Baniya Bank (RBB), Nepal's largest bank with an estimated 27% of total banking assets, and the Nepal Bank Ltd. (NBL), Nepal's oldest commercial bank, founded in 1937, account for over 50% of banking assets. The RBB is wholly owned by the government (but slated for privatization), whereas the NBL, though founded with 51% government ownership, has sold shares to the public sufficient to reduce the government's share to 41%. There are also nine smaller joint venture banks (JVB's) with mixed public-private ownership, and four local commercial bank. The banking sector also includes two large development banks, the Agriculture Development Bank of Nepal (ADB/P) and the Nepal Industrial Development Corporation (NIDC), the second and third largest banks. The ADB/N maintains a micro-financing window, as does the NRB, the RBB, the NBL, and the regional development banks. According to the World Bank, as of November 2002, Nepal also had 48 finance corporations, 13 insurance companies, numerous finance institutions, 7 Grameen Replicator Banks, 35 financial cooperatives, and 25 financial NGOs.

Both of the largest commercial banks, the RBB and the NBL, are in precarious financial condition. According to a 2000 study by the World Bank, the most recent available, in 1998 the RBB and NBL together had a losses of \$146 million, equivalent to 8.6 % of Nepal's GDP or 46% of the government's budget. The condition of both banks has doubtless deteriorated since then. In 2001 government authorities, in conjunction with the IMF and the World Bank, concluded that external managers, selected by the World Bank and the United Kingdom, were needed to reform the RBB and the NBL. Opposition to these proposals came from all sides: the boards of directors, the employees' unions and the borrowers. In January 2002, the NRB invoked the provisions of the new NRB Act and suspended the board of the NBL, effective 15 March 2002. For the RBB, the government entered into a contract on 31 January, 2002 with the American firm Deloitte Touch Tomatsu (DTT) for that company to take over management of the RBB. DTT, however, soon pulled out of the agreement, citing ambiguities in the contract and security concerns as the Maoist insurgency in Nepal became increasingly violent. In July 2002, a professional management team was installed at NBL, and in late 2002, a new CEO was appointed. The RBB is slated to be privatized in 2003.

Demand for new credit in Nepal was weak in 2001 and 2002, but the demand for credit to refinance from troubled debtors was substantial. Credit expanded in 2001 by about 10%, creating liquidity shortages at some commercial banks. In response, the NRB lowered Cash Reserve Requirements (CRR's) in January 2002 by 1.2% to around 9% (with a 3% of deposits required to be cash-in-vault). Also, refinancing rates were lowered 100-200 basis points to 2% to 5% in January 2002. In February 2002, the NRB set up a special refinancing facility at 3% interest to encourage commercial banks to make concessional loans to ailing businesses, particularly those in the garment and hotel enterprises hit by sharp declines in export demand and tourism.

At the end of FY 2000/01, in July 2001, net foreign assets held by monetary authorities in Nepal totaled \$1 bil., and broad money supply totaled about \$2.87 bil. The broad money supply grew by 21% in 1999, 21.7% in 2000, and 15% in 2001, considerably ahead of inflation rates for those years, mostly due to expansion of paper currency resulting from the progressive

monetization of the Nepalese economy. However, for FY 2001/02, the IMF estimates that broad money growth slowed to 6% because of the weakened economy and stagnant bank deposits due to the voluntary disclosure of income scheme (VDIS) and other asset verification efforts by the tax authorities. Inflation as reflected in consumer prices has been substantially moderated since October 1997 when Nepal shifted its exchange regime to one pegged only to the Indian rupee, instead of to a composite of currencies. Earlier, in February 1993, Nepal had ended its dual currency system where by both the Indian and Nepalese rupee were allowed to circulate freely. In 2001, weak domestic demand and stable Indian prices combined to produce a subdued inflation rate of 3%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$962.8 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

The NIDC, along with the NRB, controlled the Security Exchange Center (SEC), set up in 1981, which was subsequently converted into the Nepal Stock Exchange (NEPSE) in 1984. In January 2003, there were 55 companies listed on the NEPSE, virtually all actively traded.

### 34 INSURANCE

The World Bank reported in November 2002 that Nepal had 13 insurance companies. All are government owned or have some government participation. Nepal joined the Multilateral Investment Guarantee Agency (MIGA) in 1993. The US Overseas Private Investment Corporation (OPIC) and other investment insurance programs are free to operate in Nepal without restriction. OPIC is authorized to offer its extended-risk guarantee facility to US investments in Nepal.

### 35 PUBLIC FINANCE

Nepal's fiscal year ends on July 15. The continued and increasingly violent Maoist insurgency, entering its seventh year in February 2003, has had crippling impacts on Nepal's public finances, interfering with tax collections and disrupting production while at the same time requiring increased public spending on security and to repair damaged infrastructure. Most fundamentally, the insurgency hampers the government's efforts to address the poverty and other social problems fueling the rebellion. The perception of widespread corruption aggravates the present difficulties as does the global economic slowdown.

Historically, most deficits on capital account have been financed by foreign grants, while domestic revenues have been sufficient to cover current expenditures. During the first three years of Nepal's Ninth Five Year Plan (FY 1997/98 to FY 2001/02) domestic revenues were sufficient to cover current expenditures, although with a decreasing margin, and capital expenditures were met with foreign grants and only small amounts of domestic borrowing. Measured as a percent of GDP, according to IMF estimates total revenues for FY 1997/8 to FY 1999/00 were 10.5%, 10.2%, and 10.7%, respectively, while corresponding current expenditures were 9.2%, 9.3% and 9.6% of GDP, respectively. The overall deficit after grants remained above 3% of GDP, at 4.5%, 3.9%, and 3.5%, respectively, but domestic financing remained low, at 0.6%, 1.4% and 0.9% of GDP, respectively. However, in FY 2000/01, the gap between revenue, at 11.4% of GDP, and current expenditures, at 11.2% of GDP, narrowed and domestic financing of the budget deficit rose to 2.7% of GDP. Projections for FY 2001/02 by the IMF estimate that, for the first time during the Ninth planning period, revenues, at 11.4% of GDP, will not cover current expenditures, at 12.3% of GDP. Even with capital expenditures reduced to 5% of GDP, down from an average of 6.5% of GDP for the previous

four years, and foreign aid increased to 2% of GDP, up from a four year average of about 1.6% of GDP, domestic financing is expected to be at 2.6% of GDP.

Macroeconomic policy in FY 2001/02 was focused on increasing revenue collection, maintaining strict expenditure priorities, and containing domestic borrowing. A voluntary disclosure of income scheme (VDIS) plus other special revenue measures probably contributed to raising domestic revenues collected to 11.4% of GDP in FY 2000/01 and FY 2001/02, up from an average of less than 10.5% for the three previous fiscal years, but the relative rise in expenditures—1.5% of GDP—has outpaced the 0.9% rise in the revenue effort. Domestic public debt is estimated to have risen from about 14% of GDP in FY 1998/99 to about 18% of GDP in FY 2001/02, raising concerns that with increased domestic financing, in an environment in which bank deposit rates are stagnant, banks will have to draw on Nepal's scarce hard currency reserves. For FY 2000/01 the CIA estimated Nepal's external debt at \$2.55 bil. By IMF estimates, total public debt in FY 2000/01 came to 49.9% of GDP, somewhat below the average for the previous five years of 52.2% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 1999/2000 Nepal's central government took in revenues of approximately \$665 million and had expenditures of \$1.1 billion. Overall, the government registered a deficit of approximately \$435 million. External debt totaled \$2.55 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%	665
Tax revenue	70.8%	471
Non-tax revenue	13.9%	92
Capital revenue	0.1%	1
Grants	15.2%	101
EXPENDITURES	100.0%	1,100
General public services	5.5%	60
Defense	7.6%	83
Public order and safety	8.9%	97
Education	16.9%	186
Health	5.8%	63
Social security	4.6%	51
Housing and community amenities	4.9%	54
Economic affairs and services	29.2%	321
Other expenditures	16.8%	185

### 36 TAXATION

The principle sources of domestic revenue are customs tariffs, value-added taxes (VAT), excise duties, and income taxes on personal and corporate incomes. There are also local development taxes, as well as license and registration fees for houses, land and vehicles.

The VAT was introduced in November 1997 as a reform designed to replace sales taxes and most excises. The "octroi," a traditional local tax on trade, was also eliminated at this time. Five years after its introduction, however, the VAT had yet to be completely implemented, as indicated by a finding that whereas net taxes from VAT have increased 65% over the first five years, refunds have increased by a factor of 2.3. The VAT rate is 10% collected at every stage of selling goods and services. Small business with annual turnover of less than NR2 million (about \$25,000) are not required to register for the VAT, but businesses who import more than NR10,000 (about \$130) at a time, must register. Goods exempted for the VAT include primary food

stuffs, agricultural products, and industrial machinery, though the government plans to reduce this list as part of its Economic Reform Plan for 2002/03. There is no VAT on goods for export, nor on raw materials imported by an export promotion industry, nor the products of such an industry.

Excise taxes are applied mainly to goods deemed hazardous to health, such as alcoholic beverages, cigarettes and soft drinks. In January 2002, a new Excise Act went into effect that raised rates slightly as part of the government's effort to pay for increased security expenditures since 2001.

On April 1, 2002 the government put into effect a new Income Tax Act, replacing the previous act of 1958, and developed in close cooperation with the IMF. The new act covers all sources of income—from employment, business and investment—and encourages current year self-assessment and pooled depreciation. In July 2002, personal income tax brackets were adjusted upward somewhat. With these adjustments, there are two tax tiers, 15% and 25%. For individuals, income below NR65,000 (about \$850) is exempt, and for couples, NR85,000 (about \$2100). The highest marginal rate, 25%, applies to income above NR140,000 (about \$1850) for individuals, and NR160,000 (about \$2000) for couples.

Companies engaged in construction, transportation, manufacturing and power generation are subject to a 20% corporate income tax, whereas financial institutions are liable for 30%. All other businesses are assessed at 25%.

About 11.1% of state revenue comes from state-owned businesses and property. Under the Industrial Enterprise Act and the Foreign Investment and Technology Act, industries that install pollution-control, environmentally-friendly technology are eligible for a rebate of 50% of its investment from taxable income. After the equipment comes into operation, 10% of gross profits can be deducted from taxable income.

In addition to regular taxes, the government has imposed a number of "security surcharges" to deal with the increased security expenditure needed to deal with the intensifying Maoist insurgency. Special fees of 3% have been added to the taxable income of individuals, couples, companies, partnerships and non-resident taxpayers. Surcharges of 1% to 3% have been applied to imports, plus a NR1 (about \$.013) per liter tax has been added to petroleum products. The government also mounted a voluntary disclosure of income scheme (VDIS), which had questionable results. Over 3,000 new taxpayers were registered, but a simultaneous decline in bank deposits suggests more taxable income was being hidden than disclosed.

Since 1997, Nepal has received technical support in implementing its tax reforms from the Danish International Development Agency (DANIDA) and German Technical Cooperation (GTZ). In 2002, these agencies were working in an alliance they called Revenue Administration Support (RAS). The major structural reforms in which the RAS has assisted were the merger in late 2001 of the Department of Taxation with the VAT Department to form the Inland Revenue Office, and the subsequent consolidation of the 40 income tax offices and 17 VAT offices into 21, one-point-of-service, Inland Revenue Offices distributed around the country. In their division of labor, DANIDA has been supporting the mergers and the implementation of the VAT and the new income tax, while GTZ has focused on the development of Nepal's income tax/VAT system software, and the introduction of the new income tax.

Improvements in revenue collection though 2002 have been minor, however, coming, as they must, in the context of Maoist uprising that targets and competes with the government's tax collection efforts, but also into a culture of pervasive tax evasion, smuggling, and arbitrary tax assessments. Total domestic revenue reached 11.4% of GDP in 2001/2, the same as for 2000/01, and well below the target set by the government of 12.8%. The

budget for 2002/03 set the goal for domestic revenue at lower, and, perhaps attainable, 11.9%.

### 37 CUSTOMS AND DUTIES

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more than 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewelry are prohibited except under bag and baggage regulations. According to the World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include archeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Since 1960, under the duty refund procedure (DRP), India has refunded to Nepal the excise duties levied on its exports to Nepal. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Nepal, under bilateral trade agreements with India, has in past been afforded duty-free or preferential entry. However, the most recent India-Nepal Treaty of Trade, signed March 2002, while it continues to allow Nepali manufactures to enter the India market on a non-reciprocal, preferential or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufacturers can have up to 70% foreign content instead of a international norm of less than 50%), India placed quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than recent Nepali exports to India.

In 1995, Nepal joined the seven-member South Asia Association for Regional Cooperation (SAARC), and has ratified SAARC's South Asia Preferential Trading Arrangement (SAPTA). Under SAPTA, members have agreed to about 5000 tariff reductions among two or more of the members. However, plans to establish a free trade area by 2002 have been delayed.

Nepal has applied for accession to the World Trade Organization and submitted the required memorandum on its foreign trade regime in June 1998. The first meeting of the Working Party was in May 2000 and market access negotiations began in September 2000. A second meeting of the Working Party was held in September 2002, but expectations for accession to the WTO by the end of 2002 have not been realized.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Recent efforts to combat smuggling appear to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.



The Customs Act of 1997 sought to simplify custom procedures, but there have been persistent complaints about the gap between policy and practice, particularly in terms of delays and arbitrary assessments. Under the program of economic reforms for FY 2002/03, the government has announced an intention to introduce a post-clearance audit as a means of reducing complaints about customs evaluation.

### 38 FOREIGN INVESTMENT

Foreign direct investment in Nepal, always low in this landlocked kingdom, has seen annual decreases across the five years of the Ninth economic plan (1997/98 to 2001/02), from an annual total of \$11 million in 1997/98 to annual totals of \$6 million in both 2000/01 and 2001/02, according to IMF estimates. The fiscal year 1999/2000 actually had the lowest annual total, at \$3 million. In 2001, according to the government of Nepal, there were 670 foreign investment projects in the country, worth together about \$1 billion. Of these, 35% were Indian and 11% (69 projects) were from the United States with other prominent participants being Japan, China, Germany, and Korea. India's dominance is due not just to its proximity, but also to incentives for Indian investors to take advantage of the preferential trade regime India extends to Nepal's manufactures through their bi-lateral trade agreements. The bi-lateral trade treaty signed 4 December 1996 lifted all customs duties on Nepalese industrial products, while imposing more lenient rules of origin than the international norm. The renewed treaty in March 2002, while imposing quotas on four primary and raw material exports, preserved the preferences on industrial products intact. Besides India, Nepal has negotiated bilateral investment agreements with Bhutan, Germany, and Norway.

In conjunction with the advent of multiparty democracy in 1991, Nepal has undertaken economic reforms that, at least on paper, have been aimed at making Nepal increasingly attractive to foreign investors, beginning with the Foreign Investment and One Window Policy Act of 1992 and the establishment of an Investment Promotion Board. Steps have been taken to privatize dozens of government-owned public enterprises (PEs), and to open up for private investment previous government monopolies in telecommunications, hydroelectric power, and air transportation.

Licensing requirements have been streamlined, and 100% foreign ownership is now permitted. In 1999, minimum investment requirements were also lifted. The legal basis for the full-scale private development of Nepal's massive hydroelectric resources and private export to India have been laid. The first fully private power projects are now in operation, though less than 1% of the potential has been exploited. Repatriation on income by foreign permanent non-residents is taxed at 10%. Foreign investors are entitled to repatriate outside of Nepal the amount received from the sale of all or part of shares in their Nepali investment, and all amounts received as profits or dividends.

The US State Department, however, has reported that the implementation of the liberalizing reforms has been distorted not only by bureaucratic delays and inefficiencies, but by contradictory policies that mitigate and even negate the reforms. Many sectors remain closed to foreign investment, including financial services and management consulting, as well as traditional cottage industries, defense-related industries, alcohol and tobacco. On intellectual property rights both legislation and practice are considered inadequate. All foreign investment and technology transfer must have specific permission from the Department of Industries. Problems doing business in Nepal, even aside from the intensifying insurgency, make a formidable list: lack of direct access to airports, poor ground transportation, lack of skilled labor and technological expertise, unclear rules on labor relations, inadequate power, inadequate water supply, few

local raw materials, non-transparent and arbitrary tax administration, and inadequate and obscure commercial legislation. One result, according to the US State Department, is the necessity for constant interaction with government officials, far from the "One Window" policy set out in the 1992 legislation.

In 2002, the government has spoken about plans for new bankruptcy and debt recovery legislation, new intellectual property legislation, and intentions to open the country to international accounting and auditing firms, but these have not taken concrete form. For 2002/03 perhaps the promising step is the introduction of a 10 year multi-entry visa for non-resident Nepalis (NRNs) willing to invest in Nepal.

### 39 ECONOMIC DEVELOPMENT

In July 2002, Nepal completed its ninth economic planning period, and embarked on its tenth (2002/03 to 2007/08). It has not been a triumphant progression. Buffeted by a sagging world economy, the aftermath of the 11 September 2001 terrorist attacks on the United States, and an increasingly violent Maoist rebellion, Nepal reported its lowest growth rate—0.8% of GDP—in over a decade, and a 23.4% plunge in development spending, a serious stumble in the moderate, but steady progress it had been making in the 1990s.

Planned economic development began in 1953 with construction of roads and airfields and of irrigation projects to bring more acreage under cultivation. In 1956, these projects were integrated into the first five-year plan (1956–61) to assist existing industries, revive and expand cottage industries, encourage private investment, and foster technological training. With the second plan (1962–1965), the government introduced land reform with programs to set ceilings on land holdings, to protect tenancy to redistribute land to the landless, and to initiate a compulsory saving plan. Though declared a success at the time, land holdings have remained seriously skewed in distribution mainly because large land holders were able parcel out land to relatives, and because the poor have been forced to sell their redistributed land to pay debts. The third economic plan (1965–1970), was the first to be administered under the panchayat system, the system overthrown in the economic reforms of the early 1990s. The fourth (1970–75) and fifth (1975–80) five-year plans continued to emphasize infrastructural development, primarily in transportation, communications, electricity, irrigation, and personnel. The sixth development plan (1980–85) allocated nearly one-third of its total expenditure to agriculture and irrigation. However, money targeted for development projects was used for other purposes.

The objectives of the seventh plan (1986–90) were to increase production, create opportunities for employment, and fulfill basic needs. Of the total expenditure, 65% was to be used for investment, allocated as follows: agriculture, irrigation, and forestry, 30.6%; industry, mining, and electricity, 26%; transportation and communications, 17.7%; social services, 25.2%; and other sectors, 0.5%. Foreign aid was expected to fund about 70% of these projects.

With the establishment of multi-party government in 1991, a comprehensive set of reforms affecting all sectors of the economy was initiated under the eighth five-year plan (1992–1997). Nepal's public enterprises (PEs) were slated for privatization, government monopolies in hydroelectric power, telecommunications, and transportation were opened to private investment, customs were streamlined, and the country declared open for foreign investment. The ninth plan (1997–2002) emphasized investments in agriculture and hydroelectric power, liberalization and privatization of the economy, and a thorough reform of the tax system and banking practices. Under the tenth plan, to run until 2007/08, priorities have shifted to security and

poverty reduction, but with a renewed emphasis on privatization and the effort to encourage private investment.

Nepal has considerable development potential. Its vast hydroelectric power resources are estimated at 83,000 MW, of which less than 1% has been brought on line. The legal framework for the full-scale private development of the hydroelectric sector, with private exports to India, is in place. Other promising growth sectors are air transportation and telecommunications, both open to private investment, and tourism. There is growth potential in both malefactors and agricultural products for export. Although there have been many slips in the implementation of the government's economic liberalization program, it has maintained a stable, non-inflationary currency regime, and, until the eruption of problems in 2001, a record of unspectacular but steady 5% annual growth rates in GDP. The government also claims improvement in the reduction of poverty, from 42% of the population in 1997 to 38% in 2003.

Nevertheless, the challenges to Nepal's economic development are formidable. These include limited natural resources, difficult topography, poor infrastructure, landlocked location, weak human capital (with both low levels of education and health), poor public management, and a long history of political interference in the economy. Nepal's economy is characterized by a high vulnerability to shocks, natural and man-made. Its growth has been arrested since 2001, and with a per capita income below \$300 in nominal terms, it remains one of the world's poorest countries. It remains to be seen whether its economic reform programs will be swept away, or prove to be built solidly enough to weather the passing storms.

#### 40 SOCIAL DEVELOPMENT

The government maintains a countrywide village development service, which endeavors to meet the villagers' needs for food, clothing, shelter, health services, and education. Village development workers demonstrate improved methods of sanitation and health and teach the villagers to read and write. The Employee Provident Fund administers a program of old age, disability, and death benefits for government and corporate employees, funded by contributions from both employers and employees. Pensions are provided as a lump sum equal to contributions plus interest. Miners and employees of factories with 10 or more workers are protected by a workers' compensation program run by the Labor Department.

Women are subject to gender discrimination, especially in traditional rural areas. The present constitution has strengthened provisions protecting women, including equal pay for equal work, but few women work in the money economy. Women's inheritance and marriage rights have been strengthened in recent years, but women suffer discrimination in both areas. Domestic abuse and violence against women are serious societal problems that citizens and governmental authorities do not recognize. The abduction of young girls to be taken to India to work as prostitutes is a serious problem.

Members of lower castes suffer from widespread discrimination and many are in positions of bonded labor. Senior positions in politics and the civil service are dominated by urban-oriented castes, such as the Brahmin and Chhetri.

#### 41 HEALTH

Medical personnel in 1990 included 1,124 physicians, 19 pharmacists (in urban areas), 24 dentists (in urban areas), 601 nurses, and 2,380 midwives. In 1994, there was 1 hospital bed per 4,281 inhabitants. As of 1999, there were fewer than 0.05 physicians per 1,000 people and 0.2 hospital beds. In the same year, there were nine private hospitals and at least 10,000 private pharmacies in the country. Most of the medical personnel work in the Kāthmāndu Valley and health services elsewhere are in short

supply. The public sector provides most of the country's health care. Traditional medicine and faith healing are still used frequently, especially in the hill districts. In 1999, only one in 10 rural dwellers lived within one hour of a hospital. In the same year, total health care expenditure was estimated at 5.4% of GDP.

Although protected by mountain barriers, Nepal is in frequent danger from epidemics, notably cholera. Japanese encephalitis is endemic in the Terai plain and inner Terai zone. Overall, 70% of illness is from communicable disease. Common afflictions are black fever (*kala-azar*), amoebic dysentery, eye diseases, typhoid, and venereal diseases. Malnutrition, contaminated water, and inadequate sanitation cause widespread health problems. Improved health programs in rural areas have helped control malaria, leprosy, and tuberculosis. However, tuberculosis remains a significant health problem. In 1999, there were 209 cases of tuberculosis per 100,000 people. In 2000, 81% of the population had access to safe drinking water and 27% had adequate sanitation.

In 1997, immunization rates for children up to one year old were as follows: tuberculosis, 96%; diphtheria, pertussis, and tetanus, 78%; polio, 78%; and measles, 85%. Major causes of illness in children are perinatal conditions, diarrhea, measles, and severe respiratory conditions.

Nepal has a large number of drug addicts. Stringent amendments to the Narcotic Drug Control Act were adopted in 1986 in response to pressure from the United States and the United Kingdom.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 32.9 and 10 per 1,000 people. Birth control was used by 29% of married women in 2000. In the same year, the average life expectancy was 59 years. Malnutrition is a common problem. Over half of all children under five were underweight in 1996. In 2000, 54% of children under five were malnourished.

As of 1999 the number of people living with HIV/AIDS was estimated at 34,000, and deaths from AIDS that year were estimated at 2,500. HIV prevalence was 0.3 per 100 adults.

#### 42 HOUSING

Most of the population lives in rural villages where houses are made of stone or mud bricks, with thatched roofs and raised eaves. Bamboo and reed huts are also prevalent. Most houses have two stories, but some contain only two rooms, a sleeping room and a room for cooking. The well-constructed houses of the Sherpas are generally built of stone and timber, roofed with wooden slats. About four out of five urban dwellings in Nepal are owner occupied. The latest available figures for 1980–88 show a total housing stock of 3.1 million units with 5.6 people per dwelling. Housing shortages in urban areas have resulted in an increase of squatter villages, or slum areas.

#### 43 EDUCATION

The proportion of illiterate persons is declining and was estimated in 2000 at 58.6% of adults (males, 40.9%; females, 76.2%). After free primary education was introduced in 1975, school enrollment for children ages 6–11 increased from about one-fourth of the total to over one-half by the mid-1980s. By 1996, there were 22,218 primary schools with 3,447,607 pupils and 89,378 teachers. Secondary students numbered 1,121,335 and were instructed by 36,127 teachers in 1996. The pupil-teacher ratio at the primary level was 38 to 1 in 1999. In the same year, public expenditure on education was estimated at 2.5% of GDP.

Traditional schools (*pathshalas*) provide a classical education emphasizing languages. Gompas along the northern border train boys and men to become Buddhist religious leaders. English schools are modeled after those in India. Under a 1954 plan, a

national school system with a single curriculum has been replacing the traditional schools, although English schools have increased.

In 1996, 105,694 students were enrolled in all higher-level institutions.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Lalitpur has 45,000 volumes. The Bir Library, founded in the 14th century, contains 15,000 manuscripts. Other important collections are maintained by the library of Tribhuvan University (18,000 volumes) and the Singh Darbar, Nepal-Bharat (41,000), and the British Council libraries, all in Kāthmāndu. The National Museum (1928) and the Natural History Museum (1975) are both in Kāthmāndu, along with a postage museum and the King Tribhuvan Memorial Museum. There is a Museum of Excavated Archeological Antiquities in Lalitpur and a woodworking museum housed in the Palace of Fifty-Five Windows in Bhaktapur.

#### 45 MEDIA

Postal, telephone, and telegraph services are operated by the government. Telephone service connects Kāthmāndu with Birganj on the Indian frontier, and another line links the capital with foothill towns in the eastern Terai. The telecommunications network includes a 5,000-telephone automatic exchange of over 90 radio relay stations, and an earth satellite station established with help from the UK in 1982. In 2000 there were 236,816 telephones in use.

Radio Nepal, a commercial, semi-governmental network, broadcasts in Nepali and English on both short and medium wavelengths. Television was introduced into the Kāthmāndu Valley in 1986 and the Nepalese Television Corporation broadcasts about 23 hours a week. As of 2000 there were 6 AM radio stations. In 2001 there were 16 FM stations in operation and 3 television stations. In 2000, there were 39 radios and 7 television sets per 1,000 population. In 2001, there were 15 Internet service providers serving about 50,000 subscribers.

Dailies, weeklies, and monthlies in Nepali, Newari, Hindi, and English are published mainly in Kāthmāndu. The largest daily newspapers (with 2002 circulation) are the *Gorkhapatra* (75,000), the *Nepali Hindi Daily* (62,000), *Samaya* (18,000), and the English-language *Rising Nepal* (20,000).

Though the constitution specifies that the government may not censor expression, including that of the press, the press is licensed by the government, and licenses have been suspended and individuals arrested for criticism of the monarchy or support of a political party.

#### 46 ORGANIZATIONS

The leading commercial organization is the Federation of Nepalese Chambers of Commerce and Industry. The variety of professional organizations include the Nepal Medical Association, The Garment Association of Nepal, the Nepal Journalist Association, and the Nepal Drivers' Association.

National youth organizations include the Foolchowī Youth Star Club, the All Nepal National Free Students Union, Democratic National Youth Federation, the Nepal Children's Organization, the Council of Free Students Union of Nepal, the Nepal Scouts Associations, YMCA, and Youth for Human Rights, Education and Development. National women's organizations include the Nepal Women's Organization, the Nepal Association of University Women, and the Women's Development Society. Organizations involved in educational pursuits include the Environment, Culture, Agriculture, and Research Development Society in Nepal and the Royal Nepal Academy of Science and Technology.

International Organizations with national chapters include Amnesty International, CARE Nepal, Defence for Children International, Habitat for Humanity, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

In 1951, the government of Nepal reversed its long-standing policy and began to encourage visitors; before then, mountaineering expeditions had been permitted into the country only under severe official scrutiny and restraining regulations. For mountain trekkers, travel agencies in Kāthmāndu provide transportation to mountain sites, as well as Sherpa guides and porters. Tents, sleeping bags, and other mountain-climbing gear are available in Kāthmāndu. Travel is difficult; roads are generally poor.

Tourism was first officially included among the country's major potential assets in 1956. There were 463,646 foreign tourists in 2000 and receipts from tourism totaled \$167 million. There were 18,203 hotel rooms and a total of 34,958 bed-places that same year.

In 2002, the US State Department estimated the cost of staying in Kāthmāndu at \$161. Travel elsewhere in the country can be significantly less expensive.

#### 48 FAMOUS NAPALEASE

Buddhism, one of the world's great religions, is based on the teachings of Siddhartha Gautama, who became known as the Buddha ("Enlightened One"). He was born (traditionally about 624 BC but according to most modern scholars about 563 BC) in Lumbini, near Kapilavastu in the Terai, then part of India, and died at Kushinagara (traditionally about 544 BC but according to the modern view about 483 BC).

Amar Singh Thapa, Nepalese military leader of the 19th century and rival of Gen. David Ochterlony in the war between British India and Nepal, is a national hero. The two best-known Rana prime ministers were Sir Jung Bahadur Rana (1817–77) and Sir Chandra Shamsher Jang Rana (1863–1929). The most highly regarded writers are Bhanubhakta, a great poet of the 19th century, and the dramatist Bala Krishna Sama (Shamsher, b.1903).

King Mahendra Bir Bikram-Shah (1920–72), who introduced the partyless political system, based on the Nepalese tradition of the village panchayat (council), was succeeded on the throne by his son, King Birendra Bir Bikram Shah Dev (b.1945), who democratized the panchayat system. Well-known political leaders include the brothers Matrika Prasad Koirala (b.1912), head of the Nepali Congress Party and the first post-Rana prime minister of Nepal (1951–52 and 1953–55), and Bisweswar Prasad Koirala (1915–82), head of the Nepali Congress Party and the first elected prime minister of Nepal (1959–60).

World renown was gained for Nepal by a Sherpa porter and mountaineer, Tenzing Norgay (Namgyal Wangdi, 1914–86), who, with Sir Edmund Hillary, a New Zealander, ascended to the summit of Mt. Everest in 1953.

#### 49 DEPENDENCIES

Nepal has no territories or colonies.

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# NEW ZEALAND

**CAPITAL:** Wellington

**FLAG:** The flag has two main features: the red, white, and blue Union Jack in the upper left quarter and the four-star Southern Cross in the right half. On the blue state flag the stars are red outlined in white. On the red national flag, used by individuals or commercial institutions at sea, the stars are white.

**ANTHEM:** *God Save the Queen* and *God Defend New Zealand* have had equal status since 1977.

**MONETARY UNIT:** The New Zealand dollar (NZ\$) is a paper currency of 100 cents; it replaced the New Zealand pound on 10 July 1967. There are coins of 5, 10, 20, and 50 cents and 1 and 2 dollars, and notes of 5, 10, 20, 50, and 100 dollars. NZ\$1 = US\$0.5555 (or US\$1 = NZ\$1.8) as of May 2003.

**WEIGHTS AND MEASURES:** Metric weights and measures are used.

**HOLIDAYS:** New Year's Day, 1 January; Waitangi Day, 6 February; Anzac Day, 25 April; Queen's Birthday, 1st Monday in June; Labor Day, 4th Monday in October; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays are Good Friday and Easter Monday. Each province has a holiday on its own anniversary day.

**TIME:** 12 midnight = noon GMT.

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

Situated in the southwest Pacific Ocean, New Zealand proper, with a total area of 268,680 sq km (103,738 sq mi), consists of the North Island, covering 114,669 sq km (44,274 sq mi) including small islands nearby; the South Island, 149,883 sq km (57,870 sq mi); Stewart Island, 1,746 sq km (674 sq mi); and various minor, outlying islands. Comparatively, the area occupied by New Zealand is about the size of the state of Colorado. The Chatham Islands, lying 850 km (528 mi) E of Lyttelton, on South Island, have a land area of 963 sq km (372 sq mi). Other outlying islands have a combined area of 778 sq km (about 300 sq mi). New Zealand extends 1,600 km (994 mi) NNE–SSW and 450 km (280 mi) ESE–WNW. It has a total coastline of 15,134 km (9,404 mi).

New Zealand's capital city, Wellington, is located on the southern tip of North Island.

## <sup>2</sup>TOPOGRAPHY

Less than one-fourth of the land surface of New Zealand lies below the 200-m (656-ft) contour. The mountain ranges in the North Island do not exceed 1,800 m (6,000 ft) in height, with the exception of the volcanic peaks of Egmont, or Taranaki (2,518 m/8,261 ft), Ruapehu (2,797 m/9,176 ft), Ngauruhoe (2,290 m/7,513 ft), and Tongariro (1,968 m/6,457 ft), the last three of which are still active. This volcanic system gives rise to many hot springs and geysers.

The South Island is significantly more mountainous than the North Island, but is without recent volcanic activity. The Southern Alps, running almost the entire length of the South Island from north to south, contain 19 peaks of 3,000 m (9,800 ft) or above, of which the highest is Mt. Cook or Aorangi, 3,764 m (12,349 ft). There are also several glaciers in the Southern Alps, the largest being the Tasman Glacier, 29 km (18 mi) long and 1 km (0.6 mi) wide. The rivers are mostly swift-flowing and shallow, few of them navigable. There are many lakes, those in the South Island being particularly noted for their magnificent mountain scenery.

## <sup>3</sup>CLIMATE

New Zealand has a temperate, moist ocean climate without marked seasonal variations in temperature or rainfall. The prevailing winds are westerly, with a concentration of strong winds in the Cook Strait area. The generally mountainous nature of the country, however, causes considerable variation in rainfall (e.g., between the eastern and western sides of the Southern Alps), and, by preventing stratification of air into layers of different density, results in an absence of extensive cloud sheets and a consequent high percentage of sunshine. Mean annual temperatures at sea level range from about 15°C (59°F) in the northern part of the North Island to 12°C (54°F) in the southern part of the South Island. Mean annual rainfall ranges from around 30 cm (12 in) near Dunedin to more than 800 cm (315 in) in the Southern Alps.

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

Like other regions separated from the rest of the world for a long period, New Zealand has developed a distinct flora. About 75% of the native flora is unique, and it includes some of the world's oldest plant forms. However, the flowering plants, conifers, ferns, lycopods, and other vascular tracheophytes that constitute much of the land vegetation do show affinities with plants of the Malayan region, supporting the theory of an ancient land bridge between the two regions. More than 250 species are common to both Australia and New Zealand. The Antarctic element, comprising more than 70 species related to forms in the flora of South America and the Southern Ocean islands, is of great interest to botanists. The kauri pine, now found only in parts of the North Island, for more than a century has been world famous for its timber. The rimu and the totara also are timber trees. Other handsome trees include the pohutukawa and other species of rata and kowhai. New Zealand flax, formerly of great importance in the Maori economy, is found in swampy places. Undergrowth in the damp forests consists largely of ferns, of which there are 145 species; they clothe most of the tree trunks and branches, and tree ferns form part of the foliage. Tussock

grass occurs on all mountains above the scrub line and over large areas in the South Island.

Apart from seals and two species of bats, New Zealand has no indigenous land mammals. Some of the land mammals introduced to New Zealand have become pests, such as the rabbit, the deer, the pig (now wild), and the Australian possum. Sea mammals include whales and dolphins.

There is a great diversity of birds, some 250 species in all, including breeding and migratory species. Among the flightless birds the most interesting is the kiwi, New Zealand's national symbol and the only known bird with nostrils at the tip of the bill instead of at the base. Other characteristic birds are the kea, a mountain parrot, and the tui, a beautiful songbird. All but one of the genera of penguins are represented in New Zealand. Several species of birds, the most famous being the Pacific godwit, migrate from breeding grounds in the Arctic Circle to spend spring and summer in New Zealand. There are many flightless insects and a diversity of small life forms.

## 5 ENVIRONMENT

Because of its relatively small population, New Zealand's natural resources have so far suffered less from the pressures of development than have those of many other industrialized nations. Air pollution from cars and other vehicles is an environmental concern in New Zealand. The use of fossil fuels contributes to the problem. New Zealand's concern about the effects of air pollution on the atmosphere is, in part, due to the fact that the nation is among the world leaders in incidence of skin cancer. In 1996, New Zealand produced 29.7 million metric tons of carbon dioxide emissions from industrial sources.

Water pollution is also a problem due to industrial pollutants and sewage. The nation has 327 cu km of renewable water resources, of which 55% is used for farming activity and 13% for industrial purposes. The nation's cities produce an average of 2.3 million tons of solid waste per year.

Another environmental issue in New Zealand is the development of its resources—forests, gas and coal fields, farmlands—without serious cost to natural beauty and ecological balance. Two-thirds of the nation's forests have been eliminated. Principal governmental agencies with environmental responsibilities are the Commission for the Environment (established in 1972), an investigatory and advisory agency that audits environmental impact reports; the Environmental Council (1970), an advisory body that publishes information on environmental issues; and the Nature Conservation Council (1962), an advisory body that may inquire into the environmental effects of proposed public or private works projects and is free to make its reports and recommendations public.

In 2001, 3 of New Zealand's mammal species and 44 types of birds were endangered, as were 165 plant species. Native species have been seriously endangered by species introduced from outside the country. Endangered animal species in New Zealand include the takahe, two species of petrel (black and New Zealand Cook's), the black stilt, orange-fronted parakeet, kakapo, and Codfish Island fernbird. Extinct are the bush wren, laughing owl, Delcourt's sticky-toed gecko, South Island kokako, New Zealand quail, and New Zealand grayling. Endangered species on the Chatham Islands were the Chatham Island petrel, magenta petrel, Chatham Island oystercatcher, New Zealand plover, Chatham Island pigeon, Forbes's parakeet, and Chatham Island black robin. The Chatham Island swan and Chatham Island rail are extinct.

## 6 POPULATION

The population of New Zealand in 2003 was estimated by the United Nations at 3,875,000, which placed it as number 122 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 97 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.77%, with the projected population for the year 2015 at 4,173,000. The population density in 2002 was 14 per sq km (37 per sq mi), with nearly 75% of the population living on the North Island.

It was estimated by the Population Reference Bureau that 86% of the population lived in urban areas in 2001. The two largest of the urban areas are Auckland (1,014,000), and Wellington, the capital (326,000). Other large cities include Christchurch (307,179), Dunedin (109,503), Hamilton (148,625), Palmerston North (70,951), and Tauranga (70,803). According to the United Nations, the urban population growth rate for 2000–2005 was 1.0%.

## 7 MIGRATION

Between 1946 and 1975, New Zealand experienced a net gain from migration of 312,588; from 1975 to 1990, however, there was a net outflow of 110,877. Under new immigration policy guidelines issued by the government in May 1974, immigrants are selected according to specific criteria, such as job skills, health, character, age, and family size. The same restrictions now apply to British subjects as to others who wish to take up permanent residence. Citizens of Fiji, Tonga, and Western Samoa may be admitted under special work permits for up to 11 months. About 7,000 Indochinese refugees settled in New Zealand between 1975 and 1990. The number of asylum applications increased from 712 in 1995 to 1,964 in 1998. New Zealand is one of only ten countries in the world with an established resettlement program, with an annual quota of 750 as of 1999.

Australia is the preferred destination for New Zealanders departing permanently or long term. In 1999, the net migration rate was 3.01 migrants per 1,000 population.

## 8 ETHNIC GROUPS

About 74.5% of the population is classified as New Zealand European; 9.7% Maori; 4.6% are considered other European; 3.8% Pacific Islander; and 7.4% Asian and others. The most significant minority group, the indigenous Maori people, is a Polynesian group with a distinctive culture and a well-ordered social system.

Although the Treaty of Waitangi (1840) guaranteed to the Maori people all the rights and privileges of British subjects and full and undisturbed possession of their lands, these guarantees were often overlooked. As a result of war and disease, the Maori population declined to fewer than 42,000 by 1896. At the turn of the century, however, a group calling itself the Young Maori Party began to devote itself to the promotion of Maori welfare and status. In the 20th century, and especially after World War II, a more enlightened government policy prevailed.

In the early 1990s there were 321,396 Maoris or part-Maoris (those reporting a Maori ancestry of 50% or more). In all, there were 511,947 people with Maori ancestry, representing 14.9% of the census population. About 90% live on North Island. Although Maori acquisition and development of land have been promoted, there is not enough land to afford a livelihood to more than about 25% of the Maori population. Thus, many Maoris leave their tribal villages to seek job opportunities in the towns and cities. By 1981, four-fifths of all Maoris lived in urban areas.

During recent years, increasing numbers of migrants from New Zealand's former colonies and from other Pacific islands have come to New Zealand. Many of these, especially the Cook Islanders, are Polynesians having ethnic and linguistic ties with the Maoris.



LOCATION: 33° to 53°S; 162°E to 173°W. TERRITORIAL SEA LIMIT: 12 miles.

**9 LANGUAGES**

English is the universal language, although Maori, a language of the Polynesian group, still is spoken among the Maori population and is taught in Maori schools. It is the first language of about 50,000 Maori New Zealanders and became an official language in 1987, with the right of use in courts of law and before a

number of tribunals. There are Maori-language preschools, immersion primary schools, and many radio stations.

**10 RELIGIONS**

New Zealand has no state church. According to the 2001 census, about 55% of the population are Christian. Anglicans are the largest denomination with about 15% of the population. About

13% are Roman Catholic, 11% Presbyterians, 3% Methodists, 1% Baptist, 1% Mormon, and 1% Ratana, a Maori Christian group. Ringatu and Ratana are small Christian sects that are indigenous to New Zealand. About 1% of the population is Hindu and 1% Buddhist. There are also small numbers of Sikhs, Muslims, and Rastafarians.

## 11 TRANSPORTATION

The mountainous nature of New Zealand has made the development of rail and road communications difficult and expensive, particularly on the South Island. In 2002, 3,908 km (2,428 mi) of state-owned railways were operative. New Zealand has electrified some 506 km (314 mi) of its rail lines in order to reduce dependence on imported fuel.

Capital investment in roads exceeds that for all other forms of transport service. Total length of maintained roadways as of 2002 was 92,200 km (52,293 mi), of which 53,568 km (33,287 mi) were paved, including 144 km (89 mi) of expressways. As of 2000, registered motor vehicles included 1,719,077 passenger cars and 479,281 commercial vehicles. The 1,609 km (999 mi) of waterways are of little importance in satisfying total transportation requirements.

With a registered merchant marine of only eight ships, totaling 68,427 gross tons in 2002, New Zealand is largely dependent on the shipping of other nations for its overseas trade. In 1974, a government-owned firm, the Shipping Corp. of New Zealand, was set up to operate shipping services; its trade name, the New Zealand Line, was adopted in 1985. Auckland and Wellington, the two main ports, have good natural harbors with deepwater facilities and modern port equipment. Other ports capable of efficiently handling overseas shipping are Whangarei, Tauranga, Lyttelton (serving Christchurch), Bluff, Napier, Nelson, Dunedin, and Timaru.

New Zealand had 106 airports in 2001, 46 with paved runways. Thirteen are major air facilities, of which those at Auckland, Christchurch, and Wellington are international airports. The government-owned Air New Zealand Ltd. operates air services throughout the Pacific region to Australia, Singapore, Hong Kong, Tokyo, Honolulu, and Los Angeles, among other destinations. In 2001, 11,094,800 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

New Zealand's first people were the Maoris. Owing to the absence of written records, it is impossible to give any accurate date for their arrival, but according to Maori oral traditions, they migrated from other Pacific islands to New Zealand several centuries before any Europeans came, with the chief Maori migration taking place about 1350. It seems likely, however, that the Maoris arrived from Southeast Asia as early as the end of the 10th century. The first European to discover New Zealand was Abel Tasman, a navigator of the Dutch East India Company, who sighted the west coast of the South Island in 1642. He did not land, because of the hostility of the Maori inhabitants. No other Europeans are known to have visited New Zealand after Tasman until Captain James Cook of the British Royal Navy made his four voyages in 1769, 1773, 1774, and 1777. In this period, he circumnavigated both islands and mapped the coastline.

In the 1790s, small European whaling settlements sprang up around the coast. The first mission station was set up in the Bay of Islands in 1814 by Samuel Marsden, chaplain to the governor of New South Wales. In 1840, the Maori chieftains entered into a compact, the Treaty of Waitangi, whereby they ceded sovereignty to Queen Victoria while retaining territorial rights. In the same year, the New Zealand Company made the first organized British attempt at colonization. The first group of British migrants arrived at Port Nicholson and founded the city of Wellington. The New Zealand Company made further settlements in the

South Island: in Nelson in 1842, in Dunedin in 1848 (with the cooperation of the Presbyterian Church of Scotland), and in Canterbury in 1850 (with the cooperation of the Church of England). After the Maori Wars (1860-70), which resulted largely from discontent with the official land policy, the colony of New Zealand rapidly increased in wealth and population. Discovery of gold in 1861 resulted in a large influx of settlers. The introduction of refrigerated shipping in 1882 enabled New Zealand to become one of the world's greatest exporters of dairy produce and meat. The depression of the early 1930s revealed to New Zealand the extent of its dependence on this export trade and led to the establishment of more local light industry.

The British Parliament granted representative institutions to the colony in 1852. In 1907, New Zealand was made a dominion, and in 1947 the New Zealand government formally claimed the complete autonomy that was available to self-governing members of the British Commonwealth under the Statute of Westminster, enacted by the British Parliament in 1931.

New Zealand entered World Wars I and II on the side of the United Kingdom; New Zealand troops served in Europe in both wars and in the Pacific in World War II. After World War II, New Zealand and US foreign policies were increasingly intertwined. New Zealand signed the ANZUS Pact in 1951 and was a founding member of the Southeast Asia Treaty Organization (SEATO) in 1954. New Zealand troops fought with UN forces in the Korean conflict and with US forces in South Vietnam. The involvement in Vietnam touched off a national debate on foreign policy, however, and all New Zealand troops were withdrawn from Vietnam by the end of 1971. New Zealand's military participation in SEATO was later terminated.

In 1984, a Labour government led by Prime Minister David Lange took office under a pledge to ban nuclear-armed vessels from New Zealand harbors; a US request for a port visit by one of its warships was denied because of uncertainty as to whether the ship carried nuclear weapons. The continuing ban put a strain on New Zealand's relations within ANZUS, and in 1986 the United States suspended its military obligations to New Zealand under that defense agreement, also banning high-level contacts with the New Zealand government. The United States ended its ban on high-level contacts in March 1990; however, New Zealand's official stance against nuclear presence in its territory remained strong.

In the late 1990s, New Zealand's environmental concerns extended beyond nuclear issues. In 1999, when pirates decimated the population of Patagonian toothfish in the Southern Ocean off Antarctica, threatening not only fish, but also the sea birds that fed upon them, New Zealand responded to the threat to the fragile ecosystem by sending a patrol frigate to the area.

Extensive Maori land claims (to all the country's coastline, 70% of the land, and half of the fishing rights) led, in December 1989, to the formation of a new Cabinet committee designed to develop a government policy towards these claims. The committee, including former Prime Minister Lange, aimed to work with the 17-member Waitangi Tribunal, established in 1975 to consider complaints from Maoris.

The 1993 general election resulted in the governing National Party (NP) winning a bare majority of 50 seats to the Labour Party's 45. In 1996 the NP formed a coalition government with the New Zealand First Party. The coalition was led by James Bolger, who in 1994 lobbied to convert New Zealand into a republic—a move that was met by NP resistance and public apathy. This was the first election under New Zealand's 1993 referendum on proportional representation. It issued in Bolger's third term as prime minister. Winston Peters, a fierce critic of Bolger, became the country's deputy prime minister and treasurer—a new post responsible for New Zealand's budget. Peters brought the First Party into the coalition over the Labour Party, which won 37 of the 120 seats in the 1996 election. In



1996 the government settled a NZ\$170 million agreement with the Waikato Tainui tribe in the North Island for its wrongful confiscation of lands during the 1860s. The Queen signed the legislation, which also contained an apology.

The National Party-First Party coalition government remained in power until 1999, when the Labour Party won 49 seats and again became the majority government. The Labour Party formed a government in coalition with the progressive Alliance Party, with Helen Clark as prime minister. In 1999 tension arose between the Maori and white New Zealanders, centering on the growing Maori claims to the natural resources of the country. The Clark administration expressed its commitment to goals aimed at benefiting all New Zealanders, and closing the economic gap between the Maori and the rest of the population. The Labour-Alliance coalition also built alliances with other non-nuclear states and worked to strengthen the Nuclear Free Zone in the South Pacific.

General elections were held 27 July 2002, which resulted in a Labour Party victory, returning Helen Clark as prime minister. The Labour Party entered into coalition with Jim Anderton's Progressive Coalition Party, and received support from the United Future Party. The National Party recorded its worst showing in 70 years.

### 13 GOVERNMENT

New Zealand is an independent member of the Commonwealth of Nations. Like the United Kingdom, it is a constitutional monarchy, the head of state being the representative of the crown, the governor-general, who is appointed for a five-year term.

The government is democratic and modeled on that of the United Kingdom. The single-chamber legislature, the House of Representatives, has 120 members (2003), elected by universal adult suffrage for a term of three years. Adult male suffrage dates from 1879; adult women received the right to vote in 1893. The voting age was lowered to 18 in November 1974. Since 1867, the House has included representatives of the Maoris, and in 1985, the Most Reverend Paul Reeves, Anglican archbishop of New Zealand, became the first person of Maori descent to be appointed governor-general. As of 2003, six seats in the 120-member parliament were reserved for its native Maori minority population. Persons of at least half-Maori ancestry may register in either a Maori electoral district or a European district. Members are elected by simple majority. Although recent elections have resulted in coalition governments, a two-party system usually operates. The party with a majority of members elected to the House of Representatives forms the government; the other party becomes the opposition.

On his appointment, the prime minister, leader of the governing party, chooses 20 other ministers to form the cabinet. Each minister usually controls several government departments, for which he is responsible to the House of Representatives. Although the cabinet is the de facto governing body, it has no legal status. Members of the cabinet and the governor-general form the Executive Council, the highest executive body.

An act of 1962 established the post of ombudsman, whose principal function is to inquire into complaints from the public relating to administrative decisions of government departments and related organizations. In 1975, provision was made for the appointment of additional ombudsmen under the chief ombudsman.

In a September 1992 referendum, nearly 85% of voters rejected the established electoral system of simple plurality (first-past-the-post) in favor of a system based upon a mixed member proportional system, as used in Germany. Final approval came in a second referendum held as part of the 1993 general election, and the proportional voting system was introduced during the 1996 elections. Under New Zealand's proportional representation system each voter casts two votes, one for a

candidate and one for a political party. Each party is awarded seats according to its share of the overall vote, with a minimum set at 5%.

### 14 POLITICAL PARTIES

Although the New Zealand legislature began to function in 1854 under an act of 1852, it was not until near the end of the century that political parties with a national outlook began to form. This development was hastened by abolition of the provincial parliaments in 1876.

From 1890 to 1912, the Liberal Party was in power. It drew its strength from small farmers and from the rapidly increasing working class in the towns. It enacted advanced legislation on minimum wages, working conditions, and old age pensions, and established the world's first compulsory system of state arbitration. A Reform Party government replaced the Liberal government in 1912; the main items in the Reform platform were the "freehold" for certain types of farmers (i.e., the right to purchase on favorable terms the land they leased from the crown) and the eradication of patronage in the public service. During part of World War I, there was a coalition of Reform and Liberal parties. The Labour Party was formed in 1916 when several rival Labour groups finally came together. This party derived partly from old Liberal tradition, but its platform on socialization and social welfare was more radical.

The Reform Party continued in office until 1928 and was then succeeded by the United Party, a revival of the old Liberal Party. In 1931, these two parties came together, governing as a coalition until 1935. In that year, after a severe economic depression, a Labour government came to power. Labour remained the government until 1949, although for periods during World War II a coalition war cabinet and later a war administration were created, in addition to the Labour cabinet. During its term of office, Labour inaugurated an extensive system of social security and a limited degree of nationalization.

After their defeat in 1935, the old coalition parties joined to form the National Party. Coming to power in 1949, this party held office until 1957, when it was replaced by Labour. The National Party returned to power in the 1960 election, and maintained its majority in the elections of 1963, 1966, and 1969. A Labour government was elected in 1972, but in 1975 the National Party reversed the tide, winning 55 seats and 47.4% of the total vote; a National Party cabinet was formed, with Robert Muldoon as prime minister. Led by Muldoon, the National Party was returned again in the 1978 and 1981 elections, but by much lower margins.

On 14 July 1984, the National Party was defeated at the polls, winning only 37 seats (36% of the vote), to 56 seats (43%) for Labour. The Social Credit Political League won 2 seats (8%), and the New Zealand Party, a conservative group formed in 1983, won most of the remaining popular vote, but no seats. David Lange formed a Labour government and was reelected in August 1987, when Labour won 56 seats and 47.6% of the vote, and the National Party won 41 seats and 45% of the vote. No other parties won seats.

David Lange resigned as prime minister on 7 August 1989 after Roger Douglas, a political foe in the Labour Party, was reelected to the Cabinet. Labour's MPs selected Geoffrey Palmer as prime minister and party leader. Palmer resigned as prime minister in September 1990 and was replaced by Michael Moore, also of the Labour Party. In October 1990 the National Party, led by Jim Bolger, won a general election victory. Bolger's government instituted major cuts in New Zealand's welfare programs. The National Party won reelection in the November 1993 general election, capturing 50 of 99 seats. The Labour Party won 45, and both the New Zealand First Party, led by Winston Peters, and The Alliance, led by Jim Anderton, won 2 seats. In December 1993 Helen Clark replaced Michael Moore as leader

of the Labour Party, becoming the first woman to lead a major party in New Zealand.

The 1996 elections were the first under proportional representation. James Bolger was elected as prime minister for a third term, to lead a coalition government formed by the National Party and the First Party. The National Party won 44 seats; Labour, 37; New Zealand First Party, 17; Alliance Party, 8; and the United Party, 1.

In the November 1999 elections, the balance of power once again shifted, with the New Zealand National Party losing 5 seats and capturing only 30.5% of the total vote, while the New Zealand Labor Party gained 12 seats and took 38.7% of the vote, thus becoming the majority party. Under Prime Minister Helen Clark, a coalition government was formed between the Labour Party and the Alliance Party, which consisted of five small parties: the New Labor Party, the Democratic Party, the New Zealand Liberal Party, the Green Party, and Mana Motihake.

In the July 2002 elections (held early), the Labour Party captured 41.3% of the vote and 52 seats to the National Party's 20.9% and 27 seats. The New Zealand First Party took 10.4% of the vote and 13 seats. It was the worst showing for the National Party in 70 years. Prime Minister Helen Clark formed an alliance with the United Future Party, after forming a coalition with Jim Anderton's Progressive Coalition Party. United Future claimed it would not form a coalition with the Labour Party, but would support the government.

While the Liberal and Reform Parties, and in more recent times, the Labour and National Parties, have played the major roles in New Zealand's government, many other political groups have existed over the years, with varying agendas and membership. In 2002, those with enough support to win parliamentary seats included ACT New Zealand (libertarian), the New Zealand First Party (nationalistic), the Green Party of Aotearoa (ecologist), the United Future Party (liberal), and Jim Anderton's Progressive Coalition (progressive). There were 21 registered political parties as of June 2002.

## 15 LOCAL GOVERNMENT

The Local Government Act (1974), with subsequent modifications, substantially changed the structure of local government in New Zealand. The previous system was based on territorial local authorities: boroughs, which served concentrated populations of at least 1,500; counties, which were predominantly rural; and town districts, an intermediate form. In addition, there were special-purpose authorities to administer harbors, hospitals, electricity and water distribution, and other public services. The 1974 legislation added two tiers to this structure. Regional bodies—including united councils, which are appointed by the constituent territorial authorities in a region, and regional councils, which are directly elected—are charged with two mandatory functions, regional planning and self-defense, and may undertake other regional functions. Moreover, within territorial local authorities, communities may be established. Each community may have either a district community council (if the population is 1,500 or more), which exercises nearly all the powers of its parent territorial authority, or a community council, to which the parent authority may delegate powers. The purpose of these community bodies is to increase residents' participation in local government. The Local Government Act also introduced a new form of territorial local authority, the district council, established to serve areas of mixed rural and urban character.

The Local Government Commission was charged with the task of constituting the regional bodies, of which there were 22 (2 regional councils and 20 united councils) by 1983. As of 1996 there were also 93 county councils, 9 district councils, and 3 town districts. By 1999, a new administrative structure was instituted that divided local government into 17 regions that were

subdivided into 57 districts and 16 cities. In 2003, there were 12 regional councils, 59 district councils and 15 city councils. Most units of local government are elected at three-year intervals. In boroughs the mayor is elected directly by the voters, while the council itself elects the chairman of a county council.

## 16 JUDICIAL SYSTEM

In most civil and criminal cases heard first in district courts (known until 1980 as magistrates' courts), there is the right of appeal to the High Court (formerly Supreme Court), which is usually the court of first hearing for cases where a major crime or an important civil action is involved. Family courts were established in 1980 to hear cases involving domestic issues. The highest court, the Court of Appeal, exercises an appellate jurisdiction only. Its decisions are final unless leave is granted to appeal to the Privy Council in London. There are also several special courts, such as the Arbitration Court, the Maori Land Court, and the Children and Young Persons Court. The judicial system is based on British common law. The judiciary is independent and impartial. The judicial system provides citizens with a fair and efficient judicial process.

The law prohibits arbitrary interference with privacy, family, home, or correspondence and the authorities respect these provisions in practice.

## 17 ARMED FORCES

In 2002 the active armed forces numbered 8,710 including 1,280 women. Reservists were estimated at 5,870. The army had a full-time regular force of 4,530; the navy had 1,980; and the air force numbered 2,200. Army forces included two infantry battalions, one artillery regiment, one engineer regiment, and two special forces squadrons. The navy had three frigates and four patrol and coastal combatants. The air force was equipped with six combat aircraft and no armed helicopters. New Zealand forces participate in peacekeeping and other UN missions in 11 countries. Defense expenditures were estimated at 515.6 million in 2002, or 1.2% of GDP.

## 18 INTERNATIONAL COOPERATION

A charter member of the UN, New Zealand joined the world organization on 24 October 1945. It participates in ESCAP and all the nonregional specialized agencies. In addition, New Zealand belongs to the Asian Development Bank, Colombo Plan, Commonwealth of Nations, OECD, South Pacific Commission, and South Pacific Forum, among other intergovernmental organizations. A member of the WTO and signatory to the Law of the Sea and the South Pacific Regional Trade and Cooperation Agreement, New Zealand also forms part of the ANZUS alliance with Australia and the United States; in 1986, however, following New Zealand's decision to ban US nuclear-armed or nuclear-powered ships from its ports, the United States renounced its ANZUS treaty commitments to New Zealand.

## 19 ECONOMY

New Zealand's economy has traditionally been based on pastoral farming. The last decades, however, have seen the beginnings of heavy industry, and there has been a large expansion in light industries such as plastics, textiles, and footwear, mostly to supply the home market. In recent years there has been a trend toward the development of resource-based industries, and the forest industry has greatly expanded. Pulp, log, and paper products are now a major earner of overseas exchange. As of 1995, 10% of the work force was employed in agriculture, hunting, forestry, and fishing; 25% in industry; and 65% in services. In 2001, agricultural production amounted to approximately 8% of GDP, industry 23%, and services 69%.

For financing imports both of raw materials and of a high proportion of manufactured goods, New Zealand has

traditionally relied on the receipts from the export of its restricted range of primary products (mainly wool, meat, and dairy products). This dependence on the income from so few commodities makes the economy vulnerable to fluctuations in their world prices, and sharp drops in these prices, as have occurred periodically, inevitably result in the restriction of imports or a substantial trade deficit. Other important industries in 2002 were the manufacture of machinery and transportation equipment, banking and insurance, and eco-tourism.

The economy has been subjected to two major crises in last 30 years: first, in 1968, the loss of the protected market for its agricultural goods when the United Kingdom joined the European Community (now the European Union), and second, inflation and stagnation in the early 1980s in the aftermath of the second international oil shock. The first produced a government-led program to transform the economy into an independent, more industrialized competitor in the world market, and the second, a neoliberal transformation of the economy combining a strict monetary regime to eliminate inflation, liberalization of the country's trade and investment regimes, and deregulation and privatization of the domestic economy. The liberalization and stabilization program transformed New Zealand from a heavily protected and regulated economy to one of the most market-oriented and open in the world. By 1996, New Zealand was posting annual growth rates in real GDP of 5–6%, surpluses in the government's budget, and a per capita GDP in line with those of the big European economies. Subsequent disruptions, however, resulting in declines in industrial production and per capita income, have raised concerns that the gap is no longer closing. The Asian financial crisis erupting in the second half of 1997 helped lower annual growth to 3.1% in 1997, and, combined with a summer drought, push the economy into recession in the first half of 1998. The economy recovered sufficiently to register a positive 1.9% growth for 1998, and 3.5% in 1999. Despite increased fuel cost that sent inflation to 4% in 2000 (outside the government's target range of 0 to 3%), real GDP growth improved to 4.6%. The global slowdown in early 2001, exacerbated by the effects of the 11 September 2001 terrorist attacks on the United States, had a relatively mild impact on New Zealand's economy, reducing real GDP growth to 2.3%. While inflation moderated to 2.1% the government continued operating in the black with an operating surplus and positive returns from state enterprises, although the budget surplus has been steadily declining from 2.6% of GDP in 1999/98 to 0.8% of GDP in 2000/01. Part of the operating surplus fed the first contribution in 2002 to the New Zealand Superannuation (NZS) Fund established in 2001. The NZS is an investment fund designed to generate money to assure that public pensions are covered for the country's aging population. The current account deficit, a combination of a small merchandise trade surplus and a large deficit on investment income, fell from 7% of GDP to 4.8% of GDP in 2001. Gross public debt fell from 36% of GDP in 1999 to 30% of GDP in 2002, in line with the target set by government planners.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 New Zealand's gross domestic product (GDP) was estimated at \$75.4 billion. The per capita GDP was estimated at \$19,500. The annual growth rate of GDP was estimated at 3.1%. The average inflation rate in 2001 was 2.6%. 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 8% of GDP, industry 23%, and services 69%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$215.3 million or about \$60 per

capita and accounted for approximately 0.4% of GDP. Worker remittances in 2001 totaled \$216.3 million.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$10,548. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 21% of household consumption was spent on food, 12% on fuel, 3% on health care, and 2% on education. It was estimated that for the same period private consumption grew at an annual rate of 1%.

## 21 LABOR

In 2001, employment amounted to an estimated 1.92 million. Services accounted for 65% of employment, with industry accounting for 25% and agriculture the remaining 10% of the labor force. Before 1978, New Zealand had maintained virtually full employment, but the oil crisis had a major impact, and from 1978, unemployment climbed from about 3% to 10.6% in 1991. After peaking in 1991–92, unemployment was reduced to 5.5% by 2001.

The Industrial Relations Act of 1973 restructured New Zealand's industrial legislation and institutions, setting up three bodies to aid in the settlement of disputes: the Industrial Mediation Service, the Industrial Conciliation Service, and the Industrial Commission. The Commission is involved only if conciliation fails, and its arbitration is binding. The 1973 act also provides for the right to strike, although there are restrictions once a dispute is before conciliation. Higher unemployment and lower welfare benefits created a decreased willingness for workers to strike. In 1984, there were 364 work stoppages; by 1990 that number had fallen to 137, and in 1999 to 35. Legislation enacted in 1991 prohibits strikes designed to force an employer to become a party to a multi-company contract. Compulsory unionization during the 1936–61 period resulted in the creation of many small unions; the law was modified in 1962, and abolished in 1991 with the Employment Contracts Act, which radically deregulated the labor market and put the employer-employee relationship on a civil contract basis. In 1987, the private sector Federation of Labor and the public sector Combined State Unions merged to form the New Zealand Council of Trade Unions (NZCTU). A smaller federation, the New Zealand Trade Union Federation, was formed in 1993.

In 2001, the minimum wage rate was \$3.20 per hour for workers over 18 years of age. The minimum for those between 16 and 18 years old is 60% of the adult minimum. Employment may not interfere with education. By law, employees in most occupations have a 40-hour workweek, eight hours a day, five days a week. Excess hours are generally paid at overtime rates. Legislation or industrial contracts secure sick leave, paid holidays, and accident compensation for all workers. The safety, health and welfare benefits, holiday provisions, hours of work, and overtime of all workers are closely regulated.

## 22 AGRICULTURE

Over 14% of the total land area of New Zealand is devoted to agriculture. Capital investment in land improvement and mechanization has contributed greatly to the steady growth in agricultural production without an increase in the farm labor force. About 76,000 tractors and 3,100 combines were in use in 1998. Agriculture contributes about 8% to GDP and 11% of exports in 2001.

Cereal cultivation, more than 90% of which takes place on the South Island plains and downlands, fluctuates in terms of both acreage and size of crop. In 1999, areas harvested to wheat totaled an estimated 53,000 ha (131,000 acres), with a yield of 290,000 tons; 11,000 ha (27,000 acres) yielded 40,000 tons of

oats; and 80,000 ha (198,000 acres) yielded 400,000 tons of barley.

New Zealand is largely self-sufficient in horticultural products and exports some of these, such as apples and honey. In 1999, 988,000 tons of fresh fruit (excluding melons) were produced. The kiwi, a fruit that has become popular in the United States, Japan, and elsewhere, represented 90% of horticultural exports. In 1985, New Zealand accounted for more than half the world's supply of kiwi fruit. Since the mid-1980s, New Zealand has lost some of its market share in the production of kiwi, as other countries began or expanded their own domestic kiwi production—by the late 1990s, New Zealand accounted for one-third of world kiwi supply. Due to unfavorable weather, kiwi production in 1999 was estimated at 221,000 tons, down 10% from 1998. In 1999, New Zealand produced 536,000 tons of apples, 57,000 tons of peas, and 170,000 tons of corn. About 70% of apple exports is derived from the Braeburn, Gala, and Royal Gala varieties developed in New Zealand. In 2001, exports of 261,861 tons of apples were valued at \$134 million.

The Department of Agriculture and the Department of Scientific and Industrial Research provide farmers and horticulturalists with advice and encouragement on new farming methods, elimination of plant diseases, and improvement of unproductive land. Government subsidies have assisted in improving and bringing under cultivation marginal and hitherto unused scrub land. However, since the mid-1980s there has been a shift in government policy, and many subsidies to agriculture have been removed or phased out.

### 23 ANIMAL HUSBANDRY

Relatively warm temperatures, combined with ample rainfall, make New Zealand one of the world's richest pastoral areas. In 1996, pastures occupied 13.7 million ha (33.9 million acres), or 51% of the total land area. Even in the south, where winters may be quite severe, animals need not be housed. In 2001, there were 45.7 million sheep, 9.3 million head of cattle (half of which are dairy cattle), and about 355,000 pigs. Dairying and beef production are concentrated in the North Island, and sheep farming is more evenly distributed between the North and South islands. The natural tussock land in the mountainous areas of the South Island and the surface-sown grassland in the less steep parts of the North Island are used to raise sheep for wool. The extensive use of aircraft for the spread of top dressing has greatly improved hill pasture, most of which is not readily accessible to normal top dressing with fertilizers. Some 24,000 farms stock mainly sheep, occupying over 11 million ha (27.1 million acres), with an average flock of 1,800 head. Although fine-woolen Merino sheep have grazed in New Zealand since the 1830s, most of the clip nowadays comes from Romney sheep, whose coarser, thicker wool is ideal for carpet-making and knitting yarns.

Products of animal origin account for more than half the total value of New Zealand's exports, with meat industry products accounting for about 18% of exports. New Zealand is the world's largest exporter of mutton and lamb, second largest exporter of wool, and a leading exporter of cheese. The wool clip, which, having increased steadily since 1948, had fallen during the early 1970s, later rose to 380,700 tons in 1980/81; in 2000, 237,000 tons were produced. Exports of greasy and scoured wool were valued at NZ\$347 million in 2001. Beef and veal production in that year reached 590,000 tons; and mutton, 562,000 tons. New Zealand accounts for over 50% of the world's mutton exports.

With many more cows than people to milk them, New Zealand pioneered and relies on mechanical milking. In 1999, New Zealand had 20,000 milking machines. Whole milk is pumped through coolers to vats where it is transferred to tanker trucks. In 2001, 13,162,000 tons of fresh milk were produced. Milkfat production averages about 330,000 tons annually, of which 13%

is consumed as milk or fed to stock. The balance is used for dairy products.

Although wild goats and deer were once regarded as vermin, over the last decade, the profitability of venison and mohair exports led to the domestication of both animals. About 1.2 million deer and 227,000 goats are being farmed. Alpacas, llamas, and water buffalo have recently been imported to improve the breeding potential as well as wool and meat production.

### 24 FISHING

Although many kinds of edible fish are readily obtainable in New Zealand waters, the fishing and fish-processing industry has remained relatively small. Since the 1960s, however, the government has taken a number of measures to expand the industry and increase fishery exports. In 1978, the government began implementing a 322-km (200-mi) exclusive economic zone. During the next four years, it approved nearly 40 joint ventures with foreign companies in order to exploit the zone, which, with an area of about 1.3 million sq mi (nautical), is one of the world's largest. These waters support over 1,000 species of fish, about 100 of which have commercial significance. The volume of fish landed in New Zealand increased from 6,488 tons in 1936 to 561,324 tons in 2000. New Zealand's domestic vessels account for about 60% of the catch. With the rapid growth of fishing in the 1980s, about 75% of the catch is exported (with a value of \$665.7 million in 2000), mostly to the United States, Japan, and Australia. The principal finfish species caught included blue grenadier, mackerel, whiting, snoek, and orange roughy. In addition, New Zealand fishermen in 2000 landed 20,952 tons of squid and 15,319 tons of New Zealand dredge. The most valuable part of the catch is made of orange roughy, hoki, squid, and rock lobster. Oyster and mussel aquaculture are well established; scallop, salmon, and abalone farming are developing. In 2000, exports of fish and shellfish totaled NZ\$84 million; Australia, Japan, and the United States were the major markets.

### 25 FORESTRY

At the time Europeans began coming to New Zealand, about 70% of the land was forest. The major indigenous tree species are beech, kauri, rimu, taraire, and tawa. This proportion has been reduced by settlement, farming, and exploitation to about 29%. Much of the remaining natural forest is reserved in national parks, or as protected forest on mountain land. About 5% of New Zealand is covered by planted forests, which provides a large and sustainable volume of wood. The Ministry of Agriculture and Forestry (MAF) estimated the planted forest area at 1.8 million ha (4.4 million acres) in 2001, with 71% on North Island and 29% on South Island.

For wood production, New Zealand relies heavily on its planted forests of quick-growing exotic species, mainly radiata pine, which can be harvested every 25–30 years. These provide over 90% of the wood for production of sawn timber, wood panel products, pulp, paper, and paperboard. Due to these replanting efforts and privatization of forest lands, exports of softwood logs have skyrocketed since the early 1980s. Exports of forestry products in 2001 amounted to \$1.67 billion. Most of New Zealand's softwood logs and lumber go to Australia, the ROK, and Japan. Forestry accounts for about 4% of GDP. Imports of forest products consist mostly of specialty papers.

The MAF put roundwood production in 2001 at an estimated 19,418,000 cu m (685.5 million cu ft). Softwood logs for export and lumber production that year were estimated at 6.9 million and 3.9 million cu m (137.7 million cu ft), respectively. Plywood production for 2001 was estimated at 190,000 cu m (6.7 million cu ft).

The Forestry Corporation (FC) was established as a state-owned enterprise in April 1991. The FC manages 188,000 ha

(465,000 acres) of forest in the Bay of Plenty on North Island. The FC consists of three principal forests: Rotoehu Forest, Whakarewarewa Forest, and the Kaingaroa Forest in the Rotorua district that covers 149,735 ha (370,001 acres) and is claimed to be the largest planted forest in the world. In 1996, the government sold FC for NZ\$2 billion to a joint venture consortium, which planned to invest NZ\$260 million over the next several years.

## 26 MINING

Because of its diverse geology and dynamic tectonic history, New Zealand had a wide variety of potentially profitable mineral deposits, although few have been extensively exploited. Mining was a leading industry in 2002, and gold continued to dominate the mining sector. The mining industry contributed 1% to GDP in 2001, with another 2%–3% provided by the mineral processing sector. The main exports were ironsand, halloysite clay (for the manufacture of high-quality ceramics), limestone, cement, salt (by solar evaporation of seawater), sulfur, and pumice. Most output of industrial minerals was for domestic use, because the distances to overseas markets limited most exports to the high-value commodities or products with unique applications or specifications.

Gold production for 2001 was 10,000 kg, from two large hard-rock mines—the Martha Hill, at the base of the Coromandel Peninsula, at Waihi, southeast of Auckland, and the Macraes, north of Dunedin—as well as alluvial gold from three dredging operations on South Island. The Macraes Mine, which accounted for more than 50% of the country's production, received approval for expansion of throughput to 4.5 million tons per year, having successfully commissioned pressure oxidation autoclaves for treating refractory ores; it was to absorb 65,000 tons per year of concentrate from the new Globe-Progress Mine, which was planned to mill 1 million tons per year. In addition, the Reefton Goldfield, which closed in 1951, was expected to pour gold again in 2002.

In 2001, 2.7 million tons of ironsand (titaniferous magnetite) was extracted and exported to Japan. Iron ore in the form of titanomagnetite-rich sand derived from the coastal erosion of the Mount Taranaki volcanics was mined from beach and dune sands, concentrated at two sites along the western coast of North Island. Although the existence of large quantities of iron-bearing sands has been known for more than a century, the steelmaking industry was not able to exploit them until the late 1960s.

Silver mine output in 2001 was 23,000 kg. Output of building materials in 2001 included 7.5 million tons of sand and gravel for building aggregate, and 550,000 tons of limestone for roads. New Zealand also produced bentonite, clays for brick and tile, diatomaceous earth (which included zeolite), dolomite, kaolinite (pottery), lime, marl, marble, nitrogen, perlite (which included zeolite), quartzite, rock for harbor work, salt, sand and gravel (including silica [glass] sand and amorphous silica), serpentinite, and dimension stone. Considerable potential for platinum and platinum-group metals from hard-rock deposits and alluvial concentrations existed, the most promising area being the Longwood Range, in western Southland. Uranium-bearing minerals have been located on the South Island.

State-owned "Crown minerals," based on the British legal system, were owned and regulated by the New Zealand Crown Minerals Act 1991 and the Crown Minerals Amendment Act (No. 2), passed in 1997. Crown-owned minerals included all naturally occurring gold, silver, and uranium; substantial amounts of coal; other metallic and nonmetallic minerals and aggregates; and all petroleum. Minerals not designated as Crown owned were privately owned. New Zealand has not enacted native title legislation to gain access to Maori lands, claims for which were handled through the Treaty of Waitangi Tribunal.

Gold was discovered in New Zealand in the early 19th century when European sealers and whalers were first exploring the country. The mining industry began in 1852, upon the discovery of hard-rock gold on the Coromandel region, North Island, by European settlers. Gold deposits were discovered on the South Island in 1861. By 1870, copper, iron, lead, and silver deposits had been discovered and worked, and deposits of antimony, arsenic, chromium, zinc, and other minerals had been located. After World War II, industrial minerals, aggregate, and stone production grew steadily, coal mining fluctuated, and gold output declined. Extensive exploration in the 1950s and 1960s found natural gas and gas condensate, ironsand, and geothermal energy.

## 27 ENERGY AND POWER

New Zealand's per capita consumption of electricity is among the highest in the world. A network of transmission lines links all major power stations, bringing electricity to 99% of the population. Future hydroelectric potential is limited, however, and thermal power based primarily on coal and natural gas is becoming increasingly important. Total installed generating capacity was 8,512,000 kW in 2001. In 2000, net electricity generation was 37.8 billion kWh, of which 26.6% came from fossil fuels, 66.4% from hydropower, and 7% from other renewable sources. Consumption of electricity in 2000 was 33.3 billion kWh. The geothermal power station at Wairakei has been operating since 1958, while a second at Ohaaki was commissioned in 1989.

In 1995, petroleum accounted for 43% of New Zealand's primary energy consumption; natural gas, 30%; coal, 17%; and hydroelectricity, 10%. The Kapuni natural gas field, discovered in 1959, began production in 1970; the Maui offshore natural gas and condensate field, one of the largest in the world, began production in 1979. Oil and gas exploration and development of indigenous resources continue to be stressed, in efforts to reduce dependence on imports. Crude oil and natural gas liquid production levels in 1998 were 47,000 barrels per day and 4.8 million cu m, respectively. Proven reserves of natural gas total 100 billion cu m (3.5 trillion cu ft); oil reserves, 200 million barrels. Coal mining began in the 1850s; over the last 40 years, coal's contribution to the energy supply has fallen from 50% to about 11%. In the 1990s, new coal mining activity was undertaken to meet increased demands for electricity and steel production. In 2002 coal production reached its highest level in New Zealand history (4 million tons). Coal reserves are estimated at 129 million tons, of which 85% is located in the untapped lignite fields in Southland.

## 28 INDUSTRY

Industrial production has increased rapidly since the end of World War II, stimulated by intermittent import controls that often enabled domestic industry to increase output without competition. A most significant feature of New Zealand industry in recent decades has been the establishment of heavy industry with Commonwealth and US capital. Plants include metal and petroleum processing, motor vehicle assembly, textiles and footwear, and a wide range of consumer appliances. The New Zealand Steel company manufactures billet slabs and ingots using domestically produced iron sands; Pacific Steel, which processes scrap metal, uses billets from New Zealand Steel. In 1995, crude steel production totaled 800,000 tons. The Tiwai Point aluminum smelter, operated by an Australian-Japanese consortium, has an annual capacity of 244,000 tons. New Zealand's aluminum smelter production amounted to 280,296 tons in 1995. The small but growing electronics industry produces consumer goods as well as commercial products, such as digital gasoline pumps. Wool-based industries have traditionally been an important part of the economy, notably wool milling, the oldest sector of the textile industry. Other significant industrial areas include a

diverse food-processing sector, tanneries, sheet glass, rubber, and plastics.

Progressive withdrawal of government support beginning in 1985 led manufacturing to decline from 1987–89 due to a more competitive environment. However, after cutting overcapacity, many firms increased productivity and were ultimately in a stronger financial position. Industrial output has recovered since 1990. Manufacturing's contribution to GDP (at current prices) rose by 2.3% annually between 1988 and 1998.

## 29 SCIENCE AND TECHNOLOGY

Most scientific research in New Zealand is funded by the government, principally by the Department of Scientific and Industrial Research (DSIR) and the Ministry of Agriculture and Fisheries. The Cawthron Institute at Nelson, established in 1919, conducts research in chemistry, biology, and environmental and marine studies. New Zealand has 20 other institutes conducting research in agriculture, veterinary science, medicine, and general sciences and 17 universities and technical institutes offering degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 20% of college and university enrollments. Among New Zealand's 42 scientific and technical learned societies, the most prominent is the Royal Society of New Zealand, founded in 1867.

In 1987–97, research and development expenditures totaled 1.04% of GNP; 1,663 scientists and engineers and 809 technicians per million people were engaged in research and development.

## 30 DOMESTIC TRADE

New Zealand has developed an open market economy over the past two decades, as the government has given up control of many areas of domestic economic regulation, including the elimination of agriculture subsidies and controls on prices and wages. The trend in retail establishments is moving from small shops to supermarkets and shopping centers. Several retail establishments have converted to self-service operations. There is very little retail mail-order trade. Automobiles and large appliances are increasingly being sold on the installment (hire-purchase) plan. General and trade papers, regional publications, and television and radio are used extensively as advertising media.

Business hours vary, especially since the introduction of staggered work hours, known as glide time. Offices open as early as 7:30 AM and remain open until about 6 PM. Stores may be open at any time between 7 AM and 9 PM, Monday through Saturday. Saturday trading is becoming more prevalent at popular beach resorts near the larger urban areas. Sunday trading is confined to "dairy shops," permitted by law to sell a restricted range of foodstuffs. All offices and banks are closed on Saturdays, Sundays, and statutory holidays.

## 31 FOREIGN TRADE

New Zealand's trade per capita and as a percentage of GNP is among the highest in the world. In 1974/75, more than 70% of export receipts derived from meat, dairy products, and wool; but this figure was down to 56% by 1984/85 and was only 32% in 1994/95, as manufactured goods and forest products have taken an increasing share of the total. Imports consist mainly of manufactured goods, petroleum and petroleum products, and raw materials for industry. Foreign trade more than doubled in value between 1976 and 1981 and again from 1981 to 1985. Between 1992/93 and 1995/96, the value of trade increased by nearly 16%. However, 1996 would prove to be a peak for New Zealand's foreign trade; it has not quite reached that level since.

New Zealand produces a large amount of food, including meat, dairy products, fruits and nuts, and fish. Other important exports include wool, aluminum, wood, and starch. The top 10 exports are as follows:

	% OF COUNTRY TOTAL
Meat	12.6
Milk and cream	8.3
Glues	4.2
Aluminum	3.9
Butter	3.8
Cheese and curd	3.7
Fruit and nuts	3.7
Wool	3.1
Fish	3.0
Wood in the rough or squared	2.5

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

Consumer goods	18.4%
Food	6.9%
Fuels	10.1%
Industrial supplies	24.7%
Machinery	22.9%
Transportation	16.7%
Other	0.3%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Australia	2,708	3,078	-370
United States	1,930	2,418	-488
Japan	1,789	1,559	230
China (inc. Hong Kong)	769	948	-179
United Kingdom	711	531	180
Korea	596	306	290
Germany	313	591	-278
Malaysia	272	361	-89
Italy	223	277	-54
Singapore	221	232	-11

## 32 BALANCE OF PAYMENTS

Since New Zealand's foreign trade depends on agricultural and livestock products, and since prices for these commodities are volatile, New Zealand's balance of payments may swing sharply from one year to the next. Generally, deficits outweighed surpluses during the 1950s and 1960s. Consistent surpluses were recorded between 1969 and 1973, when international reserves nearly quadrupled. However, a poor trade performance in 1974, largely attributable to increased oil import costs, contributed to a large current accounts deficit. Since then, New Zealand has continued to register payments deficits, which have been partially offset by compensatory financing, including overseas loans.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of New Zealand's exports was \$14.2 billion while imports totaled \$12.5 billion resulting in a trade surplus of \$1.7 billion.

The International Monetary Fund (IMF) reports that in 2001 New Zealand had exports of goods totaling \$13.9 billion and imports totaling \$12.5 billion. The services credit totaled \$4.3 billion and debit \$4.2 billion. The following table summarizes New Zealand's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,403</b>
Balance on goods	1,474
Balance on services	127
Balance on income	-3,145
Current transfers	141
<b>Capital Account</b>	<b>439</b>
<b>Financial Account</b>	<b>1,927</b>
Direct investment abroad	-297
Direct investment in New Zealand	1,731
Portfolio investment assets	-1,146
Portfolio investment liabilities	-355
Other investment assets	-3,297
Other investment liabilities	5,291
<b>Net Errors and Omissions</b>	<b>-1,150</b>
<b>Reserves and Related Items</b>	<b>187</b>

### 33 BANKING AND SECURITIES

The Reserve Bank of New Zealand, established in 1933, exercises control over monetary circulation and credit. It is the bank of issue, handles all central government banking transactions, manages the public debt, and administers exchange control regulations. The Reserve Bank of New Zealand Amendment Act (1973) empowers the Bank to regulate credit from all sources and requires it to make loans (as the minister of finance may determine) in order to ensure continued full employment.

New Zealand's financial services sector is dominated by the commercial banks, leaving only a minor role for non-bank finance companies and savings institutions. In part this reflects the impact of deregulation since the mid-1980s. Before 1984, the financial sector was highly segmented with tight government controls on what different institutions could offer. (For example, only trading banks could offer checking accounts to clients.) The easing of regulations means that there are now only two formal categories of financial institution: registered banks and other financial institutions. However, both can offer a wide range of financial and banking services.

In 2001, the government of New Zealand dedicated NZ\$78 million (US\$ 63 million) to the establishment of a new People's Bank, to be run by the New Zealand Post and offer personal banking services, but not corporate or commercial banking. The fees of the People's Bank were expected to be 30% lower than those at other banks.

To be defined as a bank, a financial institution must register with the central Reserve Bank and meet a range of eligibility criteria, such as minimum capital adequacy, experience in the financial intermediation industry, and a commitment to stability of the financial system. The number of registered banks peaked at 24 in 1994, but in 2000 there were 18.

A number of bank mergers has increased the concentration of total banking assets in foreign ownership. Over 95% of total banking assets are foreign-owned, compared with 65% in 1990. The New Zealand banking industry is increasingly influenced by developments in Australia, since Australian banking groups control over two-thirds of banking assets in New Zealand; this share is unlikely to increase further, with the announcement in April 1996 of a conditional buy-out by Westpac Banking Corp. of Trust Bank, New Zealand's last domestically owned bank with a national branch network. The Post Office Savings Bank (established in 1865) has about 1,270 offices and agencies throughout New Zealand.

New Zealand is advantageously placed, since its trading day opens before the US market closes and before the Asian and Australian markets open. The main functions of the New Zealand Exchange Limited (NZX) are to provide an orderly market for the trading and transfer of securities, to protect investors' interests, and to ensure that the market is fully informed. As of 2003, there were 196 companies listing 213 securities worth NZ\$42.3 billion on the NZX. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$43.4 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.76%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.75%.

The Stock Exchange Association of New Zealand, the forerunner to the New Zealand Stock Exchange (NZSE), was founded in 1915. In May 2003, the NZSE became the New Zealand Exchange Limited (NZX). The stock exchanges in Auckland, Wellington, Christchurch, Dunedin, and Invercargill are members of the NZX, with headquarters in Wellington. Official listing is granted to companies that comply with the Exchange's requirements. These do not impose qualifications as to share capital but do provide that the company must be of sufficient magnitude and its shareholding sufficiently well distributed to ensure a free market for its shares. Subject to the recommendation and approval of the stock exchange nearest to the registered offices, companies may secure unofficial listing for their shares. All transactions in shares quoted in the unofficial list are subject to special brokerage rates.

### 34 INSURANCE

The government provides insurance through the Government Life Insurance Office and the State Insurance Office, which undertakes accident, fire, and marine insurance.

New Zealand has one of the world's highest ratios of value of life insurance policies to national income. Life insurance offices mobilize long-term household savings in conjunction with the provision of life insurance coverage, and are also closely associated with the management of pension and superannuation funds. The long-term contractual nature of household-sector savings through life insurance offices gives them the capacity to acquire long-term government and corporate debt instruments and to take equity positions in commercial property and company shares. In addition, they may provide mortgage financing to policy holders. General insurance companies have substantial funds available for investment to cover claims outstanding and unexpired risks. These funds are available on a short-term basis and are invested mainly in marketable securities and liquid assets. New Zealand has a no-fault compensation scheme for personal injury, established in 1992 under the Accident Rehabilitation and Compensation Insurance Act of 1992. All people, including visitors are eligible for the benefits. Under the same act, however, the right to sue for compensation was abolished.

Like its Australian counterpart, the New Zealand insurance market is one of the most competitive in the world, with some 50 general insurers and the same number of life insurers. The top five general insurers accounted for more than 70% of the total premiums written in 1997; the same pattern exists for life business.

### 35 PUBLIC FINANCE

In 1994, in response to a decade of economic reforms that have opened the economy to foreign investment and triggered strong economic growth, the budget produced a surplus for the first time

in 50 years. In 1995, public debt service dropped to 1.9% of GDP and 12% of expenditures. External debt accounted for 23% of total government debt. Interest on external debt equaled 3.5% of exports of goods and services plus investment income. The surpluses continued in 1996, but showed signs of weakness in 1997 as forecasts of slower economic growth and uncertainty over the intentions of the newly elected government prompted a drop in business confidence. Nevertheless, in June of 1997, the new government proposed a three-year program of increased spending on social programs and postponed a round of promised tax cuts. As a result of privatization and restructuring, New Zealand now has one of the most open economies in the world.

The US Central Intelligence Agency (CIA) estimates that in 2000/2001 New Zealand's central government took in revenues of approximately \$16.7 billion and had expenditures of \$16.6 billion. Overall, the government registered a surplus of approximately \$100 million. External debt totaled \$31.3 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%	16,700
Tax revenue	93.7%	15,646
Non-tax revenue	6.2%	1,027
Capital revenue	0.2%	27
EXPENDITURES	100.0%	16,600
General public services	4.6%	757
Defense	3.7%	612
Public order and safety	4.5%	739
Education	16.5%	2,731
Health	17.7%	2,943
Social security	37.9%	6,293
Housing and community amenities	0.1%	22
Recreation, cultural, and religious affairs	1.1%	190
Economic affairs and services	6.3%	1,042
Other expenditures	0.6%	105
Interest payments	7.0%	1,166

### 36 TAXATION

Earnings are taxed in one combined general income and social security tax, which for wage and salary earners is deducted by the employer on a pay-as-you-earn basis (called PAYE), with annual adjustments. As of 2002/2003, effective personal income tax rates, that is, including low-income rebates, were 15% on taxable income up to \$9,500; 21% for income between \$9,501 and \$38,000; 33% for income between \$38,000 and \$60,000, and 39% for income above \$60,000. The system of rebates includes, in addition to standard deductions for the taxpayer and dependents, rebates for housekeeping or child-care expenses, and tuition. There are also rebates for certain dividend and interest income, life insurance premiums, and contributions to retirement funds. The income tax rate for corporations, including subsidiaries of overseas corporations, is 33%, applied to net income after certain deductions. There are tax incentives for exporters. On 1 October 1986, the government introduced a value-added tax (VAT), called the goods and services tax or GST, set at 10%, but later raised to 12.5%. Exported goods, goods held overseas, services in connection with temporary imports and exported goods are zero-rated for the GST. In 2003, the government is planning to zero-rate financial services. Excise taxes are imposed on motor vehicles, gasoline, tobacco products, and alcoholic beverages. There is a fringe benefits tax (FBT) payable quarterly by employers on the value of fringe benefits provided to employees and shareholders. Employers can choose to pay a flat rate of 64% or fully or partially attribute the value

of the fringe benefits to the individual's income and pay at the appropriate rate. Capital gains are charged as the same rate as other income. The government ratified the Kyoto Protocol on climate change in December 2002, and plans to introduce an appropriate carbon tax.

Local authorities are largely dependent on property taxes. There are three main systems of rating: (1) capital (land improvements) value; (2) annual value; (3) unimproved value. The actual amount of the rate is fixed by each local authority.

### 37 CUSTOMS AND DUTIES

Customs taxation is based principally on an ad valorem scale, but specific duties are applied to some goods. Rates of duty payable depend on the country of origin. With the exception of some automotive products, preferential rate scales for the United Kingdom were phased out by 1 July 1977, as a result of that nation's entry into the European Community. In 1978, preferential rates for Commonwealth countries were also discontinued. Two years earlier, New Zealand had introduced a revised generalized system of preferences (GSP) favoring the developing countries. Tariffs range from 0% to 30%. New Zealand hopes to reduce all tariffs to 0%–15% after the year 2000. There is also a goods and services tax (GST) of 12.5% that applies to CIF (cost, insurance, and freight) value.

### 38 FOREIGN INVESTMENT

Investment in New Zealand's economy by overseas companies through New Zealand subsidiaries has increased steadily, with the largest contribution from Australian sources, outstripping both US and UK sources in recent years. At the end of 1991, total foreign direct investment (FDI) in New Zealand was \$11 billion whereas as of 31 March 2001 total FDI stock was \$49.3 billion. FDI from Australia rose from \$4.8 billion to \$17.2 billion in the period 1991 to 2001; from the United States, \$2.8 billion to \$7 billion; and from the United Kingdom, \$1.9 billion to \$6.7 billion. In 2000/01, FDI flow peaked at \$7.7 billion, more than double the rates in the previous four years: \$2.9 billion in 1997, \$3.4 billion in 1998, \$1.78 billion in 1999, and \$2.96 billion in 2000. Foreign portfolio investment has been more volatile. A small net outflow of \$285 million in 1997 was followed by two years of positive inflow (\$927 million in 1998 and \$747 million in 1999), and by then a large outflow of \$6 billion in 2000. In 2001, according to government's statistics, portfolio investment was a record \$3.89 billion.

In contrast, the stock of FDI held by New Zealanders in other parts of the world totaled \$14.7 billion as of 31 March 2001.

The legal framework for FDI in New Zealand is laid out in the Overseas Investment Regulations of 1995, administered by the Overseas Investment Commission (OIC). Under the regulations an overseas persons must obtain consent to acquire 25% or more any New Zealand business, property worth more than \$30 million; acquisition of land is also restricted.

### 39 ECONOMIC DEVELOPMENT

Economic policy is implemented through taxation, Reserve Bank interest rates, price and monopoly controls, and import and export licensing. From 1958 to about 1975, import controls, tightened in 1961 and again in 1973, were employed to correct deficits in the balance of payments. Then in the mid-1970s the government began an industrial restructuring program focused on certain industries, such as textiles, footwear, automobiles, and electronics, whose domestic prices were much higher than those of foreign substitutes, with the aim of reducing the protection granted such products. In 1977, the New Zealand Planning Council was charged with advising the government on economic, social and cultural planning, and on the coordination of planning. In 1978 the Economic Monitoring Group was established to make reports on economic trends working



independently of the Planning Council. The government gradually liberalized import controls, and by 1981 about 79% of private imports to New Zealand were exempt from licensing.

In June 1982, in an effort to control mounting inflation, the government announced a freeze on wages, prices, rents, and dividends. The freeze was lifted in March 1984, temporarily reimposed by a new Labour government, and then terminated late in 1984. In March 1985, the New Zealand dollar was floated as part of a broad-based deregulation of the economy, and the Reserve Bank has not intervened since. The termination of the freeze, combined with a devaluation of the dollar, led to a resumption of high inflation, which lasted until the crash of financial markets in October 1987. From this point the government began implementing a strict monetary policy designed to achieve a stable price level. The immediate cost was a sharp rise in unemployment (from 7% to 10.4%), but by 1991 inflation had been brought down to the low levels that have prevailed since. The target set by the government is a range between 0% and 3% per year. For the year ending September 1991, inflation was 2.2%. The average inflation rate for the five years 1997 to 2001 was 1.5%, with a low of negative 0.4% in 1999 and a high of 3.2% in 2001. Also from the mid-1980s, the New Zealand government has embarked on a major restructuring program to transform the economy from an agrarian economy dependent on preferences in the British market to a competitive and more industrialized free market economy with per capita incomes on par with the leading industrialized nations. In the course of the last 18 years, New Zealand has been changed from being one of the most regulated in the OECD to one of the most deregulated. For most of the 1990s, the economy grew strongly, but then was slowed by the Asian financial crisis. Real growth rates dropped to 1.9% and 0.4% in 1998 and 1999, respectively. Recovery in 2000 to 4.6% growth was reduced to 2.6% in 2001 as the economy felt the impact of the global slowdown.

The Labour-Alliance government elected in November 1999 set as its goals the transformation of New Zealand into a competitive, knowledge-based economy with emphasis on the development of high skills, high employment and high value-added production. Monetary policy remains guided by the Reserve Act of 1989, which aimed at maintaining price stability. Fiscal policy is guided by the framework set out in the Fiscal Responsibility Act of 1994. Specific goals include keeping gross governmental debt below 30% of GDP, holding government expenditures to around 35% of GDP, and running an operating surplus in order to build up a fund (the New Zealand Superannuation Fund or NZS Fund) to meet the future costs of publicly provided retirement income. In 2002, the first contribution to the NZS Fund was made, equivalent to 0.5% of GDP. By 2007, it is envisioned that through the combination of contributions to the NZS and returns on its investments, accumulated assets will have risen to 8% of GDP. Fiscal policy is based on a macroeconomic approach, essentially Keynesian, which allows automatic fiscal stabilizers to operate during both the upturns and the downturns in the economy. The major foci of the government's economic policy in 2002 is building conditions for enhancing New Zealand's sustainable economic growth rate and making it back into the top half of the OECD in terms of per capita income. The government's Growth and Innovation Framework, released in February 2002, identified several key policy areas: an open, competitive microeconomy, macroeconomic stability, and improving skills and talents, innovation and global connectedness. The main barriers to New Zealand's economic development are largely external, including a vulnerability to economic and geopolitical shocks in a world in which global recovery in 2002 has been weaker than expected.

In 1984/85, New Zealand contributed a total of \$36.25 million in Official Development Assistance, \$30 million in technical and capital assistance and direct aid or loans to

developing nations, and \$6.25 million in multilateral aid through the UN, the South Pacific Commission, ADB, and other organizations. In 1995, New Zealand's ODA reached \$123 million, and then peaked at \$154 million in 1997. In 1998, under the strains of the Asian financial crisis, New Zealand's total aid declined to \$130 million, and in 2000/01 fell further to \$99.1 million. Projections are for New Zealand to increase its ODA .5% in 2002. New Zealand's international aid effort has normally amounted to between 25% and 27% of GNP. The major recipients of its development assistance are the nations of the South Pacific, who receive about 70% of New Zealand's bilateral aid and about 62% of its total overseas aid.

#### 40 SOCIAL DEVELOPMENT

A dual system of universal and social assistance is provided to all residents. Monetary benefits are paid for retirement, unemployment, sickness, and emergencies; and to widows, orphans, families, invalids, and miners. Retirement is set at age 65. Benefits are funded by ordinary government revenues and provide a percentage of the average weekly wage after tax. Benefits are taxable, but are not subject to an income test. Medical benefits include medical, hospital, and pharmaceutical payments. Work injury compensation legislation provides for dual universal and compulsory insurance systems. The plan is financed by insurance premiums paid by employers and the self-employed and by a contribution from general revenue. Compensation for temporary disability is 80% of average earnings. Maternity benefits are provided for single women for six months.

Although prohibited by law, discrimination in the workplace still exists. Women continue to earn less than men, and sexual harassment is a serious problem. Domestic violence and abuse is a growing concern, although the law penalizes spousal rape. The law broadened the definition of domestic violence to include various kinds of psychological abuse. The government provides support to victims of domestic violence.

The government respects the human rights of its citizens.

#### 41 HEALTH

For over 50 years, comprehensive health services, most of them supported by the state, have been available to all New Zealanders. About 80% of all health care costs are met by the public sector. Treatment at public hospitals is free for people ordinarily resident in New Zealand. In private hospitals, medical care is subsidized; a full range of maternity services is paid for by the Department of Health. The Health Service provides hospital treatment, maternity services from a general practitioner, most prescribed drugs, laboratory diagnostic services, dental care, routine immunizations for children under 16, and some health appliances free of charge. Partial benefits are paid for private hospitalization, X-ray services, physiotherapy, and hearing aids. Care is free for infants and preschool children. Most children are immunized free by their family doctors, but the Department of Health also has immunization clinics. In 1994, children up to one year old were vaccinated against tuberculosis, 20%; diphtheria, pertussis, and tetanus, 84%; polio, 84%; measles, 87%; and hepatitis B, 81%. In 1999, rates for DPT and measles were, respectively, 88% and 83%. In 1991, the government announced plans to expand health care resources for those in financial need.

Area health boards, formed to combine primary and hospital care facilities for each region under a single administrative unit, were established in 1985. Market-oriented health care reforms were introduced in the 1990s, but many were reversed at the end of the decade when a Labour-Alliance government came to power. The country's health care system is still mostly tax funded. Twenty-one district health boards were formed by the New Zealand Public Health and Disability Act of 2000. As of 1999, total health care expenditure was estimated at 8.1 % of GDP.

Public hospitals are managed under the supervision of the Minister of Health by local hospital boards, whose members are elected; all costs are borne by the state. Private hospital costs are partly paid for by the state; additional fees may be claimed from patients. Voluntary welfare organizations make valuable contributions to public health and are assisted by grants from public funds. Most physicians practice under the National Health Service, established by the Social Security Act of 1938, but private practice outside the scheme is permitted. As of 1999, there were an estimated 2.3 physicians and 6.2 hospital beds per 1,000 people.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 14.2 and 7.6 per 1,000 people. About 70% of married women (ages 15 to 49) were using contraceptives in 1990–95. In 2000, the total fertility rate was two children per woman living throughout her childbearing years. Infant mortality in 2000 was 6 per 1,000 live births for the total population. Life expectancy at birth was 78 years. The principal causes of death are heart disease, stroke, chronic obstructive pulmonary disease, and lung and colorectal cancer. There were about six reported cases of tuberculosis per 100,000 people in 1999.

The health of the Maori people, although greatly improved over recent decades, is still not on a par with that of the general population. Alcoholism is a significant public health problem in New Zealand. Estimates of the number of chronic alcoholics range upward from 53,000 and another 250,000 New Zealanders may be classified as excessive drinkers. Tobacco consumption in New Zealand has decreased from 2.3 kg (5.1 lbs) a year per adult in 1984–86 to 2.0 kg (4.4 lbs) in 1995. The heart disease mortality rate for those over 65 years old is higher than the average for countries defined as high human development by the World Bank. As of 1999, the number of people living with HIV/AIDS was estimated at 1,200 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.06 per 100 adults. New Zealand has adopted needle exchange programs to reduce HIV spread among IV users.

## 42 HOUSING

The number of houses and apartments built in New Zealand fell steadily from 1974/75, when 34,000 new houses and flats were built, to 1981, when only 14,300 were constructed; since then, numbers have generally risen, reaching 18,000 in 1992, when New Zealand's housing stock totaled 1,220,000. As of 2001, there were 1,359,843 private dwellings nationwide. About 80% were separate, single family houses. There were about 5,265 temporary dwellings (i.e., cabins, tents, mobile homes). The average household had 2.7 people. The average private dwelling has three bedrooms, a living room, dining room, kitchen, laundry, bathroom, toilet, and garage. Most units are built of wood and have sheet-iron or tiled roofs.

In recent decades, the government has introduced measures designed to assist the financing of housing by contractors and private owners. These include increases in the maximum housing loans advanced by the State Advances Corporation, low-interest loans for families with low incomes, and the establishment of a home savings scheme through the Post Office Savings Bank. Since 1937, the government Housing Corp. has built houses and flats for rental, with preference given to low-income families; by March 1985, 90,469 of these had been completed. Since 1951, the government has generously subsidized local authorities to provide pensioners' housing.

## 43 EDUCATION

Education in New Zealand is compulsory for 10 years for children between ages 6 and 16, although most children attend school from the age of five. The adult literacy rate is 99%. Public primary and secondary schools are administered by district education boards (or boards of governors) and school committees

(the latter elected by householders), under the authority of the Department of Education. Kindergartens are run either by private persons or by voluntary organizations with partial state subsidies. Primary education is given at primary and intermediate schools (the latter giving the last two years of primary education), and post-primary education at secondary schools, technical high schools, or consolidated schools for pupils who live in rural areas. Evening classes are given by technical and secondary schools, and adult education classes are offered by the universities. Most state schools are coeducational, but some private schools are not. New Zealand has 2,300 state primary schools and 60 privately owned schools. At the secondary level, there are 315 state-run schools and 15 private schools. As of 1999, public expenditure on education was estimated at 7.2 % of GDP.

In 1997, 357,569 students attended 2,296 primary schools, with 19,523 teachers. Student-to-teacher ratio stood at 18 to 1. In the same year, secondary schools had 433,347 students and 28,548 teachers. The pupil-teacher ratio at the primary level was 15 to 1 in 1999. In the same year, 100% of primary-school-age children were enrolled in school, while an estimated 90% of those eligible attended secondary school. Attendance at vocational schools has grown tremendously in recent years, from a total enrollment of 3,071 in 1980 to 63,658 in 1994. For children in isolated areas, there is a public Correspondence School. In some regions there are special state primary and secondary schools for Maori children, but most Maori children attend public schools. Private primary and secondary schools are operated by individuals and religious bodies. Since 1975, under new legislation, many private schools have been voluntarily integrated into the public system.

There are six universities, all operating under the aegis of the University Grants Committee and the Universities Entrance Board: the University of Auckland, University of Waikato (at Hamilton), Massey University (at Palmerston North), Victoria University of Wellington, University of Canterbury (at Christchurch), and University of Otago (at Dunedin). All universities offer courses in the arts, social sciences, commerce, and science. An agricultural institution, Lincoln College, is associated with the University of Canterbury. Law is offered at Auckland, Waikato, Victoria, Canterbury, and Otago, and medicine at Auckland and Otago. The Central Institute of Technology, near Wellington, is the leading institution in a network of 24 polytechnic institutions. There are evening classes for adults interested in continuing their education at secondary schools, institutes and community centers. University tuition fees are low, and financial assistance is given to applicants who have passed special qualifying examinations. A total of 169,656 students were enrolled in tertiary institutions in 1997, with 10,833 teaching faculty.

## 44 LIBRARIES AND MUSEUMS

The Alexander Turnbull National Library of New Zealand was founded in 1966 by the amalgamation of three state libraries and service divisions. It contains 300,000 volumes, not including material in certain special collections. Its Extension Division provides services to public and school libraries throughout the country, and the Library School offers courses for the training and certification of librarians. The two largest libraries are at the University of Auckland (1.6 million volumes) and the University of Canterbury at Christchurch (571,000). The largest public libraries are in Auckland, Christchurch, Dunedin, and Wellington.

Outstanding art galleries and museums are the Auckland City Art Gallery (European and New Zealand paintings); the Canterbury Museum, Christchurch (ornithology, anthropology, and history); the Dunedin Public Art Gallery (paintings, period furniture, and china); the Otago Museum, Dunedin

(ethnography, classical antiquities, ceramics); and the National Museum, Wellington (botany, ethnology, history). The nation's largest collection of Maori and Polynesian artifacts is found in the War Memorial Museum in Auckland. The Auckland Museum, founded in 1852, also has a fine collection of Maori artifacts. There is also a Museum of Puppets in Auckland and a Melanesian Mission House highlighting the Christian conversion of the indigenous peoples. There are hundreds of other historical and anthropological museums and sites throughout the country.

#### 45 MEDIA

The government is in the process of privatizing and deregulating the telecommunications sector. In 1990, Telecom Corp., which runs the country's telephone services, was sold to a consortium led by American Information Technologies Corp. and Bell Atlantic. The number of mainline telephones as of 2000 was at 1.92 million. The same year, there were 2.2 million cellular phones in use nationwide.

After undergoing decentralization in the early 1970s, the national broadcasting system was again reorganized in the latter half of the decade, and united under one central board, the Broadcasting Corp. of New Zealand. Under its authority are the Radio New Zealand network, a unified television service operating the two formerly competing national networks, TV1 and TV2, and one privately owned channel. As of 1998 there were 124 AM and 290 FM radio stations and 41 television broadcast stations. Color television was introduced in October 1973, and most households now have color sets. In 2000, there were 997 radios and 522 television sets for every 1,000 people. The same year, there were 360 personal computers for every 1,000 people and Internet access was available through 36 service providers. In 2001, there were 1.78 million Internet subscribers.

The largest daily newspapers and their estimated 2002 circulation figures are:

	LOCATION	CIRCULATION
<i>New Zealand Herald</i>	Auckland	240,000
<i>The Press</i>	Christchurch	98,070
<i>The Dominion</i>	Wellington	70,000
<i>Evening Post</i>	Wellington	64,440
<i>Otago Daily Times</i>	Dunedin	51,110

Major weeklies include:

	LOCATION	CIRCULATION
<i>Sunday Star Times</i>	Auckland	199,420
<i>Sunday News</i>	Auckland	135,229
<i>The New Zealand Listener</i>	Auckland	96,000
<i>Dunedin Star Weekender</i>	Dunedin	43,000

The law provides for freedom of expression including free speech and a free press. Aside from the usual British legal limit for libel, the press enjoys complete editorial freedom.

#### 46 ORGANIZATIONS

Almost all aspects of New Zealand life have their appropriate organizations. A few of the more important ones are the Federated Farmers of New Zealand, the New Zealand Fruitgrowers' Association, the New Zealand Employers' Federation, the Chamber of Commerce (represented in almost every large town), the Returned Servicemen's Association, the New Zealand Federation of Labour, the Plunket Society (which deals with child welfare), the Royal Society of New Zealand, "Heritage" (devoted to the assistance of children deprived of one parent), the New Zealand Medical Association, the New Zealand Press Association, the New Zealand Institute of Public Administration, and the New Zealand Public Service Association.

Important cultural organizations are the New Zealand Symphony Orchestra, the New Zealand Opera Company, Creative New Zealand, the New Zealand Ballet, the Queen

Elizabeth II Arts Council, the New Zealand Academy of Fine Arts, and the New Zealand Music Federation.

National youth organizations include the Girl Guides Association of New Zealand, New Zealand Scouting Association, National Council of the YMCA/YWCAs of New Zealand, New Zealand Federation of Young Farmer Clubs, New Zealand Student Association for the United Nations, New Zealand University Student Association, and Young Socialists. There are numerous sports associations for all ages, including a National Rifle Association.

Social action groups include the National Advisory Council on the Employment of Women, the National Council of Women of New Zealand, and New Zealand Men for Equal Rights Association.

International organizations with national chapters include Amnesty International, Greenpeace, Habitat for Humanity, Salvation Army, Save the Children Fund, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

New Zealand draws many thousands of tourists to its shores because of the beauty, diversity, and compactness of its natural attractions and its varied sporting facilities. There are 10 national parks and 3 maritime parks. Of these, Fiordland is the largest, with some portions still unexplored. Urewera, noted for its forests and bird life, is the park in which early Maori culture is most strongly preserved; Tongariro includes two active volcanoes and is an important ski resort; and Mount Cook National Park includes Tasman Glacier, the largest glacier outside the polar regions. New Zealand has numerous thermal spas, particularly in the Rotorua area, which also offers Maori villages where traditional arts and crafts may be observed. The Waitomo Cave, on the North Island, is lit by millions of glowworms and may be toured all year. Lake Taupo and its streams form one of the world's richest trout fishing areas; Christchurch is home to one of the world's finest botanical gardens. Skiing is available on both the North and South Islands, and good deep-sea fishing along the North Island coast. New Zealand has first-class golf courses. Spectator sports include horse racing, soccer, cricket, and rugby.

All overseas visitors (except Australian nationals) need passports valid for at least six months beyond their intended stay in New Zealand. No visas are required for persons who are traveling on valid British passports; for citizens of Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Liechtenstein, Luxembourg, Monaco, the Netherlands, Norway, Sweden, or Switzerland; or for US or Japanese nationals not planning to stay in New Zealand more than 30 days. There are no vaccination requirements.

In 2000, there were 1,786,765 visitor arrivals in the country, with 32% from Australia, 11% from the United States, 11% from the United Kingdom, and 8% from Japan. Tourism receipts totaled US\$2.1 billion. That year there were 25,911 hotel rooms with a 52% occupancy rate. The average daily cost of staying in New Zealand, according to a 2003 US government estimate, was between US\$140 and US\$193 per day.

#### 48 FAMOUS NEW ZEALANDERS

Among New Zealand's best-known statesmen are Sir George Grey (1812–98), governor and later prime minister; Richard John Seddon (1845–1906), prime minister responsible for much social legislation; William Ferguson Massey (1856–1925); and Peter Fraser (1884–1950), World War II prime minister. Robert David Muldoon (1921–92) was prime minister from 1975 to 1984, when David Lange (b.1942) became the youngest man to hold that office in the 20th century. Sir John Salmond (1862–1924) was an eminent jurist. William Pember Reeves (1857–1932), outstanding journalist, politician, and political economist, was the director of the London School of Economics. Frances Hodgkins (1869–1947) was a highly regarded painter. Katherine

Mansfield (Kathleen Beauchamp Murry, 1888–1923), author of many evocative stories, was a master of the short-story form. Other well-known authors include Sylvia Ashton-Warner (1908–84) and Maurice Shadbolt (b.1932). Two outstanding leaders of the Maori people were Sir Apirana Ngata (1874–1950) and Sir Peter Buck (1880–1951). Sir Truby King (1858–1938) pioneered in the field of child care.

Lord Ernest Rutherford (1871–1937), pioneer in atomic research and 1908 Nobel Prize winner for chemistry, was born in New Zealand. Other scientists include Sir Harold Gillies (1882–1960) and Sir Archibald McIndoe (1900–62), whose plastic surgery methods did much to rehabilitate war victims; Sir Brian G. Barratt-Boyes (b.1924), a researcher in cardiac-thoracic surgery; and Albert W. Liley (b.1929), a researcher in perinatal psychology. Prominent in the arts have been ballet dancers Alexander Grant (b.1925) and Rowena Jackson (b.1926); the singer and actor Inia Watene Te Wiata (1915–71); and the soprano Kiri Te Kanawa (b.1944). Sir Edmund Percival Hillary (b.1919) was the conqueror of Mt. Everest. The celebrated political cartoonist David Low (1891–1963) was born in New Zealand.

## 49 DEPENDENCIES

### Cook Islands

Part of New Zealand since 1901, the Cook Islands became internally self-governing on 4 August 1965. The Cook Islands Constitution Act of 1964 established the island group as wholly self-ruling but possessed of common citizenship with New Zealand as well as of a common head of state (the Queen). New Zealand exercises certain responsibilities for the defense and external affairs of the islands, in consultation with the Cook Islands government. Full independence from New Zealand is planned for 2007.

A parliamentary type of government, like New Zealand's, characterizes the new political relationship, with a cabinet composed of a prime minister and six other ministers. The 24-member Legislative Assembly—to which the prime minister and other cabinet members are responsible—is elected by the adult population of the islands every four years and can void the applicability of New Zealand laws to the territory under its jurisdiction. The constitution of the autonomous islands also allows a declaration of independence, if ever this should be the wish of the political leadership. The office of New Zealand high commissioner was abolished in 1975 and replaced by the office of Queen's representative. Cook Islands products continue to enter New Zealand freely, and the level of subsidies to the islands from the New Zealand government has persisted.

The population (estimated in 2002 at 20,811) is Polynesian and close in language and tradition to the New Zealand Maori. They are converts to Christianity. The islands are visited by government and freight vessels, and interisland shipping services are provided by commercially owned boats. An international airport opened for full services in 1973. There are three radio stations (1 AM and 2 FM). The Cook Islands, 15 islands lying between 8° and 23°S and 156° and 167°W, more than 3,220 km (2,000 mi) northeast of New Zealand, were discovered by James Cook in 1773. They became a British protectorate in 1888 and were annexed to New Zealand in 1901. They consist of the Southern Group—8 islands, the largest of which are Rarotonga (6,666 ha/16,472 acres) and Mangaia (5,191 ha/12,827 acres); and the Northern Group—7 islands varying in size from Penrhyn (984 ha/2,432 acres) to Nassau (121 ha/299 acres). The total area is 241 sq km (93 sq mi). The northern islands are low-lying coral atolls, while the southern islands, including Rarotonga, the administrative seat, are elevated and fertile, and have the greater population. Except for Rarotonga, the islands suffer from lack of streams and wells, and water must be conserved. The islands lie

within the hurricane area and sometimes experience destructive storms.

The economy is based on agriculture, with the main exports being copra, papayas, fresh and canned citrus fruit, and coffee. Other exports are fish, pearls, pearl shells, and clothing. Total exports were valued at US\$9.1 million in 2000. The main imports are foodstuffs, textiles, fuels, timber, and capital goods. In 2000, imports amounted to US\$50.7 million.

Revenue for public finances is derived mainly from import duties and income tax. The 2000–01 budget envisioned expenditures of US\$27 million. The New Zealand government provided grants and subsidies for capital development in health, education, other social services, economic development, and other purposes, covering one-third of the budget.

Free compulsory education is provided by the government at primary and secondary levels for all children between the ages of 6 and 15, and an estimated 95% of the population is literate. All Cook Islanders receive free medical and surgical treatment, and schoolchildren receive free dental care.

### Niue

An isolated coral island, Niue is 966 km (600 mi) northwest of the southern Cook Islands, and located at 19°02' S and 169°52' W. Niue became a British protectorate in 1900 and was annexed to New Zealand in 1901. Although Niue forms part of the Cook Islands, because of its remoteness and cultural and linguistic differences it has been separately administered. Niue has an area of 258 sq km (100 sq mi). Its population (of Polynesian stock) was 2,134 in 2002, up slightly from 1,997 in 1993, but still below the peak of 5,194 in 1966. The population decline was principally due to emigration to New Zealand, where Niueans outnumber those remaining on the island by two to one.

Niue became self-governing on 19 October 1974, in free association with New Zealand. Under the constitution, the former leader of government became the premier. An assembly of 20 members is elected by universal suffrage; 14 members represent village constituencies, and 6 are elected at large. The constitution provides for New Zealand to exercise various responsibilities for the external affairs and defense of Niue and to furnish economic and administrative assistance.

Niue's soil, although fertile, is not plentiful; arable land is confined to small pockets of soil among the coral rocks, making agriculture difficult, although the economy is based mainly on agriculture. Since there are no running streams, the island is dependent on rainwater. Exports include canned coconut cream, copra, honey, vanilla, passionfruit products, pawpaws, root crops, limes, footballs, stamps, and handicrafts; in 1999 income from exports was \$137,200. As of 2001, there were 234 km (146 mi) of road, 86 km (54 mi) of which are paved. A telephone system, with nearly 400 main lines as of the 1990s, connects the villages, and an airport became fully operational in 1971.

Budget deficits are met by the New Zealand government, which also makes grants for capital development. Health services and education are free. Education is compulsory for children 5 to 14 years of age.

### Tokelau Islands

The Tokelau Islands, situated between 8° and 10°S and 171° and 173°W, about 483 km (300 mi) north of Western Samoa, consist of three atolls, Fakaofu, Nukunonu, and Atafu. Total area is about 10 sq km (4 sq mi). Each atoll has a lagoon encircled by a number of reef-bound islets varying in length from about 90 m to 6.4 km (100 yards to 4 mi), in width from 90 m to 360 m (100–400 yards), and extending more than 3 m (10 ft) above sea level. All villages are on the leeward side, close to passages through the reefs. Lying in the hurricane belt, the islands have a mean annual rainfall of 305 cm (120 in). The inhabitants, of Polynesian origin, are British subjects and New Zealand citizens. Total population

in 2002 was estimated at 1,431, down from 1,760 in 1992. Formerly part of the Gilbert and Ellice Islands group, the Tokelau were transferred to New Zealand at the beginning of 1949. There is no resident European staff; executive functions are carried out on each atoll by appointed Tokelau mayors, magistrates, clerks, and other officials. An administrative officer based in Samoa coordinates administrative services for the islands. Samoan is the official language.

Subsistence farming and the production of copra for export are the main occupations. The total fish catch was 190 tons in 1994. Visits are made regularly by New Zealand Air Force planes, and a chartered vessel makes regular trading visits. Sources of revenue are an export duty on coconuts, copra, customs dues, postage stamps, and trading profits.

Government expenditure is devoted mainly to agriculture, the provision of social services, and administrative costs. Annual deficits are met by New Zealand government subsidies. New Zealand's annual budgetary aid was estimated at US\$4 million in 2000. Nutrition and health are reasonably good.

### Ross Dependency

The Ross Dependency (between 160°E and 150°W and south of 60°S) is a section of the Antarctic continent that was brought under the jurisdiction of New Zealand in 1923. Its area is estimated at 414,400 sq km (160,000 sq mi). It is almost entirely covered by ice and is largely uninhabited. New Zealand activities in the dependency are coordinated and supervised by the Ross Dependency Research Committee (a government agency) and implemented by the Antarctic division of the Department of Scientific and Industrial Research. Exploitation of the region, apart from scientific expeditions, has been confined to whaling. A joint US-New Zealand scientific station established at Cape Hallett in 1957 for participation in the International Geophysical Year continues to operate for purposes of scientific research.

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# OMAN

Sultanate of Oman

*Saltanat 'Uman*

**CAPITAL:** Muscat (Masqat)

**FLAG:** The flag is red with a broad stripe of white at the upper fly and green at the lower fly. In the upper left corner, white crossed swords overlay a ceremonial dagger.

**ANTHEM:** *Nashid as-Salaam as-Sutani (Sultan's National Anthem)*.

**MONETARY UNIT:** The Omani riyal (RO), established in November 1972, is a paper currency of 1,000 baizas. There are coins of 2, 5, 10, 25, 50, 100, 250, and 500 baizas, and notes of 100, 250, and 500 baizas (the last two being replaced by coins) and 1, 5, 10, 20, and 50 riyals. RO1 = \$2.60417 (or \$1 = RO0.384) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system was adopted on 15 November 1974. The imperial and local system also are used.

**HOLIDAYS:** Accession of the Sultan, 23 July; National Day, 18 November; Sultan's Birthday, 19 November. Movable Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha', and Milad an-Nabi.

**TIME:** 4 PM = noon GMT. Solar time also is observed.

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

The Sultanate of Oman is the second-largest country after Sa'udi Arabia on the Arabian Peninsula, with an area officially estimated at 212,460 sq km (82,031 sq mi). Comparatively, the area occupied by Oman is slightly smaller than the state of Kansas. Oman's territory includes the tip of the strategically important Ra's Musandam, which juts into the Strait of Hormuz. Oman's part of the peninsula is separated from the rest of the country by the territory of the United Arab Emirates (UAE). Oman proper extends 972 km (604 mi) NE-SW and 513 km (319 mi) SE-NW. It is bordered on the N by the Strait of Hormuz, on the NE by the Gulf of Oman, on the E and S by the Arabian Sea, on the SW by the People's Democratic Republic of Yemen (PDRY), on the W by the Ar-Rub' al-Khali (Empty Quarter) and Sa'udi Arabia, and on the NW by the United Arab Emirates. The total estimated boundary length is 3,466 km (2,154 mi), of which 2,092 km (1,300 mi) is coastline.

## **<sup>2</sup>TOPOGRAPHY**

Physically, Oman, except for the Dhofar (Zufar) region, consists of three divisions: a coastal plain, a mountain range, and a plateau. The coastal plain varies in width from 16 km (10 mi) to practically nothing near Muscat, where the hills descend abruptly to the sea. The highest point, Jabal Shams, is at 2,980 (9,777 ft) in the Al Jabal range of the north. The plateau has an average height of about 300 m (1,000 ft) and is mostly stony and waterless, extending to the sands of the Ar-Rub' al-Khali. The coastline southward to Dhofar is barren and forbidding. From Salalah, a semicircular fertile plain extends to the foot of a steep line of hills, some 1,500 m (4,920 ft) high, and forms the edge of a stony plateau also extending to the sands of the Empty Quarter.

## **<sup>3</sup>CLIMATE**

Annual rainfall in Muscat averages 10 cm (4 in), falling mostly in January. Dhofar is subject to the southwest monsoon, and rainfall up to 64 cm (25 in) has been recorded in the rainy season from late June to October. While the mountain areas receive more plentiful rainfall, some parts of the coast, particularly near the

island of Masirah, sometimes receive no rain at all within the course of a year. The climate generally is very hot, with temperatures reaching 54°C (129°F) in the hot season, from May to October.

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

Desert shrub and desert grass, common to southern Arabia, are found. Vegetation is sparse in the interior plateau, which is largely gravel desert. The greater rainfall in Dhofar and the mountains makes the growth there more luxuriant. Coconut palms grow plentifully in Dhofar and frankincense grows in the hills. Oleander and varieties of acacia abound.

Indigenous mammals include the cheetah, hyena, fox, wolf, and hare. Birds include the Arabian see-see partridge, redleg chukor partridge, and Muscat bee eater.

## **<sup>5</sup>ENVIRONMENT**

Maintaining an adequate supply of water for agricultural and domestic use is Oman's most pressing environmental problem. The nation has only 1 cubic kilometer of renewable water resources, with 94% used in farming and 2% for industrial activity. Only 30% of all rural dwellers have pure drinking water. Both drought and limited rainfall contribute to shortages in the nation's water supply. The nation's soil has shown increased levels of salinity. Pollution of beaches and other coastal areas by oil tanker traffic through the Strait of Hormuz and Gulf of Oman is also a persistent problem.

In 2001, the nation had nine endangered species of mammals and five endangered types of bird. Nineteen plant species are also threatened with extinction. Decrees have been passed to protect endangered species, which include the South Arabian leopard, Arabian oryx, mountain gazelle, goitered gazelle, Arabian tahr, green sea turtle, hawksbill turtle, and olive turtle.

## **<sup>6</sup>POPULATION**

The population of Oman in 2003 was estimated by the United Nations at 2,851,000, which placed it as number 134 in population among the 193 nations of the world. In that year

approximately 2% of the population was over 65 years of age, with another 35% of the population under 15 years of age. There were 135 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.93%, with the projected population for the year 2015 at 3,908,000. The population density in 2002 was 12 per sq km (31 per sq mi). The greatest concentrations are around Muscat and on the Batinah coast; together, they have more than half the population.

It was estimated by the Population Reference Bureau that 84% of the population lived in urban areas in 2001. The capital city, Muscat, had a population of 887,000 in that year. Salalah is the principal town of the south. According to the United Nations, the urban population growth rate for 2000–2005 was 4.4%.

## 7 MIGRATION

There is frequent movement of workers between Oman and neighboring states. In 2000 there were 682,000 migrants living in Oman, primarily foreign laborers. The net migration rate was 1.7 migrants per 1,000 population. The government views the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

The indigenous population is predominantly Arab except on the Batinah coast, where there is significant Baluchi, Iranian, and African representation, and in Muscat and Matrah, where there are Khojas and other Indians, Baluchis, and Pakistanis. Tribal groups are estimated to number over 200.

## 9 LANGUAGES

The official language is Arabic. Urdu, Baluchi, and several Indian dialects are also spoken, especially in the cities of Muscat and Matrah. English is taught as a second language.

## 10 RELIGIONS

The state religion is Islam. Most of the population belong to the Ibadhi or Sunni sects. Tribes in the north are mainly Sunni Muslims of the Hanbali, Shafai, and Wahhabi rites. A minority of the population is Shi'a Muslim. There is a small community of Indian Hindu citizens, and there is reportedly a very small number of Christians. Non-Muslims, the majority of whom are non-citizen immigrant workers from South Asia, are free to worship at churches and temples, some of which are built on land donated by the Sultan.

## 11 TRANSPORTATION

As of 2002, there were 32,800 km (20,382 mi) of roadways, of which only 9,840 km (6,115 mi) were paved, including 550 km (342 mi) of expressways. A major 800-km (500-mi) highway links Nazwa in the north to Thamarit and Salalah in the Dhofar region. A main coastal road has been laid from Muscat to Suhar, a distance of 240 km (150 mi), and the road from Muscat to Buraymi on the United Arab Emirates border has been completed. In 2000, passenger car registrations totaled 262,400,000 and commercial vehicle registrations totaled 124,900. There are no railways or waterways in Oman.

In 2001, there were 143 airports, only 6 of which had paved runways. Seeb International Airport, 30 km (19 mi) northwest of Muscat, is served by numerous international carriers, including Gulf Air, in which Oman holds a 20% interest. A second modern airport, at Salalah in the south, serves domestic flights. In 2001, 1,980,100 passengers were carried on scheduled international and domestic airline flights.

Mina's Qabus, near Muscat, is the main port in the north, serving international and regional shipping. Port Salalah, 1000 km (621 mi) down the coast from Muscat is the main port for the south. Opened in 1998, Port Salalah is the only port between

Europe and Singapore that can accommodate the S-class, the world's largest class of container vessel. It is now among the top twenty container ports in the world in terms of handling capacity, and among the top ten in terms of efficiency. All Omani crude oil is exported from Mina's al-Fahl, west of Matrah. In 2002, Oman had 3 merchant vessels totaling 17,291 GRT.

## 12 HISTORY

Oman's history can be traced to very early times. In Genesis 10:26–30, the descendants of Joktan are said to have migrated as far as Sephar (now Dhofar). The area was already a commercial and seafaring center in Sumerian times, and Phoenicians probably visited the coastal region. Other groups that probably came to the area in ancient times include the Baida and Ariba, Semitic tribes from northern Arabia, now extinct; the first Himyar dynasty from Yemen, which fell to the Persians in the time of Cyrus, about 550 BC; ancient Greek navigators; and the Parthians (174–136 BC).

The entire population was converted to Islam during the lifetime of Muhammad, but Oman soon became—and remains today—the center of the Ibadhi sect, which maintained that any pious Muslim could become caliph or imam and that the imam should be elected. Omani tribes have elected their imams since the second half of the 8th century.

The first prolonged contact with Europe came in 1507–08, when the Portuguese overran Muscat. They maintained control until they were driven out with Persian aid in 1649. During the next 75 years, Oman conquered Mombasa, Mogadishu, the island of Zanzibar, and the Portuguese possessions in East Africa. Later it held parts of what are now Iran and Pakistan.

The first sultanate was established in Muscat about 1775. In 1798, Britain concluded its first treaty with Muscat. Sa'id bin Sultan (r.1804–56) became dependent on British support, and after his death his sons quarreled over his succession (the basic Ibadhi tenet having been rejected). Thus weakened by political division, Muscat lost control of the interior. In 1920, the Treaty of Seeb was signed between the sultan of Muscat and the imam of Oman, acknowledging the autonomy of the imamate of Oman under the sovereignty of the Sultan. From 1920 to 1954 there was comparative peace. On the death of the imam in 1954, Sultan Sa'id bin Taymur moved to succeed him.

That year, Sa'id concluded a new agreement with Petroleum Development (Oman) Ltd., a British-managed oil company that had the oil concession for Oman. By this agreement, the company maintained a small army, the Muscat and Oman Field Force (MOFF), raised and led by the British. In early 1955, it subdued the area up to and including the town of 'Ibri. When British troops took Buraymi, MOFF occupied the rest of Oman and expelled the rebellious new imam. By 1959 when the last of the insurgents supporting the imam were defeated, the sultan voided the office and declared the Treaty of Seeb terminated. The imam, exiled in Sa'udi Arabia, tried in vain to muster Arab support for his return.

Under the terms of the Anglo-French Declaration of 10 March 1962, the sultanate of Muscat was proclaimed an independent and sovereign state. Certain Arab states charged, however, that the UK was maintaining a colonial presence in the former imamate of Oman. In 1965 and repeatedly thereafter, the UN called unsuccessfully for the elimination of the British presence. Oman joined the UN late in 1971.

Meanwhile, as early as 1964, a tribal rebellion had been brewing in the Dhofar region. The rebel tribes, organized as the Dhofar Liberation Front and aided by South Yemen, later joined forces with the Marxist Popular Front for the Liberation of Oman and the Arab Gulf. The insurgency was suppressed in 1975 with direct military assistance from Jordan and Iran. A treaty with Yemen defining the border was ratified in 1992.

Qabus bin Sa'id ousted his father, Sa'id bin Taymur, on 23 July 1970 and has ruled as sultan since that time. He immediately changed the name of the country from Muscat and Oman to the Sultanate of Oman and has presided over an extensive modernization program, easing his father's harsh restrictions and opening the country to the outside world, while preserving political and military ties with the British. Oman has been a proponent of cooperation among the Gulf states. A member of the Gulf Cooperation Council (GCC), it has also sought to keep good relations with Iran. Because Oman dominates the Strait of Hormuz, which links the Gulf of Oman with the Persian Gulf, its strategic importance drew it and the United States closer together with the start of the Iran-Iraq war in 1979. Under the terms of a pact signed in 1980, US military personnel and ships have been given access to Omani military and naval bases and are permitted to preposition military material for use in contingencies.

Oman pursues a moderate, independent foreign policy. Unlike most Arab states, it supported the Camp David accords and did not break relations with Egypt following its peace treaty with Israel. Similarly, during the Gulf War, Oman sent forces to Sa'udi Arabia and granted strategic facilities to the United States, but did not sever diplomatic relations with Iraq during the conflict.

In 1994 reports began appearing of arrests of critics of the Omani government. It was estimated that nearly 500 such critics with points of view ranging from the Arab nationalist Ba'th movement to Islamists supporting the Sunni Muslim Brotherhood were detained by the Omani government.

Through 1995 Oman was considered as having "graduated" from the ranks of under-developed nations needing World Bank loans. Its ambitious economic goals included a 10-year plan for cultivating tourism and plans to improve its infrastructure, including water desalinization. However, in 1998, the economy was adversely affected when the price of oil dropped below \$10 per barrel, a 25-year low. Oman agreed with the Organization of Oil Exporting Countries (OPEC), of which Oman is not a member, to reduce global oil production by 2.1 million barrels of crude per day until April 2000 in the hope of raising oil prices to \$18 per barrel. In October 1999, the Omani oil minister recommended extending oil production cuts beyond the date originally proposed. Meanwhile, Oman has sought to diversify its economic base and ease its dependence on oil. A gas liquefaction plant at Sur was slated for completion in 2000.

As of 1999, Oman held to a middle-of-the-road stance of conciliation and compromise in Middle Eastern politics. In January 1999, Oman's foreign minister met with his counterparts from Egypt, Sa'udi Arabia, Syria, and Yemen at a closed meeting in Cairo to forge a position on the question of Iraq. Also in 1999, Oman's sultan, Qabus bin Sa'id, signed an agreement with the president of the United Arab Emirates defining the borders between Oman and the emirate of Abu Dhabi.

During 2002 and into 2003, Oman, along with the other countries of the Persian Gulf, were confronted with the situation of a potential US-led war with Iraq. On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and WMD weapons capabilities, to allow the immediate return of International Atomic Energy Agency (IAEA) and UN weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. If Iraq was found to be in "material breach" of the resolution, "serious consequences" were to result. The United States and the UK began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. As of 1 February, there were 3,600 US military personnel, 100 elite British special forces, and approximately 40 aircraft in Oman. As well, a new airbase was under construction, which would have a 14,000-ft. runway. However, Oman has said it would not act in a conflict with Iraq



LOCATION: 51°50' to 59°40' E; 16°40' to 26°20' N. BOUNDARY LENGTHS: Total coastline, 2,092 kilometers (1,301 miles); Yemen, 288 kilometers (179 miles); Sa'udi Arabia, 676 kilometers (420 miles); United Arab Emirates, 410 kilometers (255 miles). TERRITORIAL SEA LIMIT: 12 miles.

without UN approval. At an Arab League summit held at Sharm el-Sheik, Egypt, on 1 March, sharp divisions between Arab leaders on the Iraq situation emerged, particularly between Libya and Sa'udi Arabia. However, the leaders issued a declaration expressing "complete rejection of any aggression on Iraq," and called for continuing UN weapons inspections. It also called upon Iraq to disarm itself of WMD and the missiles needed to deliver



them. At the summit, some leaders argued war was inevitable and that the countries of the region should prepare for its aftermath; some argued that war could be avoided if Iraq were to comply with weapons inspections; and a third group argued that the summit should issue an unequivocal anti-war declaration.

### 13 GOVERNMENT

Oman's sultan is an absolute monarch. The sultanate has no constitution, legislature, or suffrage. In 1970, Sultan Qabus appointed a cabinet of ministers responsible for various government departments and functions.

A State Consultative Council, established in 1981, consisted of 55 appointed representatives of government, the private sector, and regional interests.

This body was replaced in 1991 by a Majlis Al-Shura, a 59-seat Consultative Council, which was seen as a first step toward popular participation in government. The Sultan expanded the membership to 80 seats after the country's first national census in 1993.

The Council has no formal legislative powers but may question government ministers, and recommend changes to new laws on economic and social policy. These recommendations have led to amendments to proposed decrees.

On 6 November 1996 the Sultan decreed the country's first "basic law" which provides for citizens' basic rights in writing and a body known as the Majlis Oman (Council of Oman) which includes a new Council of State (Majlis Al-Dawla) and the current Consultative Council.

In 2000, the Consultative Council was expanded to 83 seats, and members were chosen by the vote of 175,000 government-selected electors. In January 2001, the sultan appointed 53 members of the Majlis Al-Dawla, including 5 women.

In November 2002, the sultan extended voting rights to all citizens over the age of 21. Voters in Oman were previously chosen from among tribal leaders, intellectuals, and businessmen.

### 14 POLITICAL PARTIES

There are no legal political parties nor, at present, any active opposition movement. As more and more young Omanis return from education abroad, it seems likely that the traditional, tribal-based political system will have to be adjusted.

### 15 LOCAL GOVERNMENT

The nation is divided into six regions, two governates (Musandam, Dhofar) and 59 wilayats (districts), governed by walis, who are responsible to the Ministry of the Interior. The Governate of the Capital is responsible for the administration of Muscat.

### 16 JUDICIAL SYSTEM

*Shari'ah* courts based on Islamic law administer justice, with the Central Magistrate Court at Muscat. There are four additional magistrate courts in Sohar, Sur, Salalah, and Nizwa. Qadis, or religious judges, appointed by the sultan, function within each wilayat. Appeals from the Central Magistrate Court are made to the sultan, who exercises powers of clemency. The *Shari'ah* courts, adhering to Islamic law, equate the testimony of one man with that of two women. There is also a security court, rarely used, which handles internal security cases. A commercial dispute may be resolved at the Authority for Settlement of Commercial Disputes.

In 1996, a basic law providing for citizens' basic rights was promulgated by the sultan. The basic law affirms the independence of the judiciary. There are no jury trials.

### 17 ARMED FORCES

Oman's armed forces, including Royal Household troops foreign personnel numbered 41,700 in 2002. The army had 25,000 personnel equipped with over 100 main battle tanks and 37 *Scorpion* tanks. The air force of 4,100 operates 40 combat aircraft. The navy numbers 4,200 with 13 patrol and coastal combatants. Paramilitary includes the Tribal Home Guard (Firqats) of 4,000 organized in small tribal teams, a police coast guard of 400, and a small police air wing. The elite Royal Household brigade, naval unit, and air unit number 6,400, including 2 special forces regiments. In 2001 Oman spent \$2.4 billion on defense or 12.2% of GDP.

### 18 INTERNATIONAL COOPERATION

On 7 October 1971, Oman gained membership in the UN; the nation belongs to ESCWA and all the nonregional specialized agencies except IAEA. Oman also participates in G-77, GCC, and the Arab League, as well as the Islamic Conference. Oman is a member of the WTO.

### 19 ECONOMY

Oman's location at the entrance to the Persian Gulf for centuries made it an *entrepôt* for trade, including a substantial traffic in arms and slaves. Its prosperity declined in the 19th century, when, as a result of Western dominance in Asia, traditional trade patterns and communications routes were radically changed. Oman's economy then became predominantly dependent on agriculture and fishing.

The situation changed with the discovery of oil in 1964. Production began in August 1967, and by the mid-1970s most of the economy revolved around oil. The hydrocarbons sector accounted for 77% export earnings and government revenues in 2000. Despite diversification efforts, petroleum's share of GDP rose from 37% in 1994 to 38.2% in 1995 to 40% in 1999. In 2000, petroleum's share jumped to 49% of GDP as oil prices rose sharply from near-record lows in early 1999. As of January 2001, Oman's proven oil reserves were 5.5 billion barrels. At the estimated high production level of 959,816 barrels per day in 2001, the reserves would last another 15.7 years. The government's Oman 2020 program looks to a fundamental transformation of the economy by that time. In recent years, the production of natural gas has become a significant factor of the economy. Gas reserves increased from 9.8 trillion cubic feet in 1990 to 29.3 trillion cubic feet 2001, and government predictions are that this will eventually expanded to some 40 trillion cubic feet. in 1999 and are further increasing. Two major extensions of Oman's pipeline connections from gas deposits in the center of the country were completed in August 2002: a pipeline to the north coast at Sohar and a pipeline to the south coast at Salalah. With the recovery of gas prices from in the latter half of 1999, GDP grew at extraordinarily high rates of 15.6% in 1999 and 19.6% in 2000. Inflation was negligible at 0.4% in 1999 and 1.4% in 2000.

### 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Oman's gross domestic product (GDP) was estimated at \$21.5 billion. The per capita GDP was estimated at \$8,200. The annual growth rate of GDP was estimated at 7.4%. 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. It was estimated that agriculture accounted for 3% of GDP, industry 40%, and services 57%. Foreign aid receipts amounted to about \$1 per capita.

Approximately 22% of household consumption was spent on food, 25% on fuel, 13% on health care, and 21% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

The estimated workforce was 920,000 in 2002. A large proportion of the population were still engaged in subsistence agriculture or fishing. The skilled local labor force is small, and many of the larger industries depend on foreign workers from India, Pakistan, the Philippines, Bangladesh, and Sri Lanka—foreign laborers constituted over 80% of the modern-sector workforce in 1996.

Omani law does not provide the right of union formation. The law forbids a strike for any reason. Collective bargaining is not permitted, however there exist labor-management committees in firms with more than 50 workers. These committees are not authorized to discuss conditions of employment, including hours and wages. The Labor Welfare Board provides a venue for grievances.

The minimum working age is 13, but this provision is not enforced against the employment of children in family businesses or on family farms. The minimum wage for nonprofessional workers was \$260 per month in 2002. However, many classes of workers (domestic servants, farmers, government employees) are not required to receive the minimum wage and the government is not consistent in its enforcement of the minimum wage law. The private sector workweek is 40 to 45 hours long, while government officials have a 35-hour workweek.

## 22 AGRICULTURE

Agriculture contributes only about 3% to GDP, but engages 37% of the economically active population, mostly at a subsistence level. The potential for expanding agriculture in Oman is good. Land use is determined primarily by the availability of water. There is extensive cultivation along the Batinah and Shumailiyah coasts; in the interior, however, cultivation is confined to areas near wadis, where water is taken off by a system of water channels (fallaj). The total area under cultivation is estimated to be about 63,000 hectares (155,600 acres).

The principal agricultural product is the date, at 135,000 tons in 1999. On the Baunah coast, groves containing some 10 million date palm trees form a strip 240-km (150-mi) long and 40-km (25-mi) wide. Fruits grown in Dhofar include bananas, mangoes, and coconuts. Citrus fruits (notably limes), nuts, melons, bananas, coconuts, alfalfa, and tobacco are also grown. Tomatoes, cabbages, eggplant, okra, and cucumbers are important winter crops. Frankincense is traditionally produced from about 8,000 trees growing wild in Dhofar. Along the Batinah coast, a wide variety of produce is grown, including fruits, wheat, rice, and durra. Agricultural exports were valued at \$615.6 million in 2001, while agricultural imports amounted to \$1.3 billion that year.

## 23 ANIMAL HUSBANDRY

Goats, sheep, donkeys, and camels are widely raised. In 2001 there were 998,000 goats, 354,000 sheep, 314,000 head of cattle, 121,000 camels, and 28,000 donkeys. There is a relatively large-scale cattle-raising industry in Dhofar. Total meat production in 2001 was 35,000 tons. Oman estimates that it is 53% self-sufficient in milk production, 46% in beef, 44% in eggs, and 23% in milk. The camels of Oman are famous for their fine riding qualities.

## 24 FISHING

The waters of the Gulf of Oman are rich in sardines, mackerel, shrimp, lobsters, crayfish, tuna, barracudas, groupers, and sharks. The annual catch in 2000 was 415,885 tons, mainly sardines. Fishing employs about 26,000 persons. Recent investment in onshore processing and refrigeration plants, harbors, and repair yards has facilitated commercial fishing development. Exports of fish products amounted to \$51.3 million in 2000. The government subsidizes the cost of boats and engines to promote employment in fishing. Fish stocks and breeding patterns are studied at a research center south of Muscat. In 1996, three new fishing harbors were opened (at Bukha in Musandam, Quriyat, and Shinas), at a combined cost of r 10.3 million and with a capacity for about 1,000 small boats.

## 25 FORESTRY

Forest coverage is less than 1%. The use of wood as the sole fuel and overgrazing by goats have depleted the forests of Oman, but the interior of the country is fairly well wooded. Oman imported \$17.1 million in forest products during 2000.

## 26 MINING

Petroleum and natural gas dominated Oman's economy. Large deposits of copper, which supports a leading industry, have been discovered northwest of Muscat. The first evidence of copper production dated at Wadi Jizzi indicated that Oman has been a mineral producer for more than 5,000 years. Deposits at the Sohar mine were nearly exhausted by 1991; other deposits were discovered at Hajl al-Safi and at Rakah, in Ibri. More than half of Oman's copper production was taken from the Lasail Mine, with much of the remaining output from the Aarja surface mine. The Ministry of Petroleum and Minerals has reported proven copper reserves at 8 tons and proven chromite ore reserves at 1.6 tons. Gold was mined from the Rakah deposit, near Yanqui; the Rakah plant processed 100,000 tons per year of ore. In 2000, National Mining Co. of Oman explored for copper, gold, and silver near Sohar, and the Metal Mining Agency of Japan completed exploration for copper and gold in the South Batinaha area. Construction of an industrial port at Sohar to service the mineral industry continued in 2000, and a number of mineral-processing projects were under consideration, including an aluminum smelter, a number of ammonia and urea plants, a ferrochrome project, a methanol plant, and a unit to recover sulfur. Output of chromite in 2000 was 15,110 tons, down from 28,684 in 1998; sand and gravel, 22.45 million tons, up from 9.8 in 1998; gold, 604 kg; silver, 306 kg, up from 95 in 1998; and marble, 147,686 tons. Oman in 2000 also produced, and had large deposits of, limestone, manganese, gypsum, asbestos, and dimension stone.

## 27 ENERGY AND POWER

Oil, discovered in 1964 in western Oman, has transformed the nation's economic life. As of 1998, oil export revenues totaled \$5.2 billion and accounted for 80% of all export revenues. When production began in 1967, several foreign interests combined to form a majority backing in Petroleum Development Oman (PDO). In July 1974, foreign participation dropped to 40%, with the remaining 60% held by the government. PDO was the lone oil producer in the country until the Elf-Sumitomo-Wintershall group was granted a concession in 1980. Oman is unlike the other Middle Eastern oil producers, because its oil was discovered decades after that of most of its neighbors, and its oil fields are generally smaller, less productive, and more costly to maintain. Also, Oman is not a member of Organization of the Petroleum Exporting Countries (OPEC), but a leader in IPEC, the main independent petroleum exporter's organization. In 1998,

however, Oman cooperated with OPEC in reducing its oil production to help stabilize world oil prices.

Output of oil in 2001 averaged 963,816 barrels per day. Petroleum reserves were estimated at 5.5 billion barrels in early 2002, enough to last until around 2020 at the current rate of production. Proved reserves of natural gas were estimated to be 829.5 million cu m (29.2 billion cu ft) at that time (over 100 years' supply at current production levels), and it is anticipated that Oman will increasingly replace oil with gas as fuel. The 6.6-million-ton per year liquefied natural gas (LNG) plant at Qalhat began exporting liquefied natural gas in early 2000.

With limited oil reserves, Oman is currently trying to reduce its reliance on oil as the chief source of revenue. Oman is trying to establish itself as a consultant to other independent oil and natural gas producing nations, like Kazakhstan and India.

In 2001, total installed electric capacity was 2,410,000 kW. Production in 2000 totaled 8.6 billion kWh, of which 100% was from fossil fuels.

## 28 INDUSTRY

Besides oil, industry in Oman still consists largely of small-scale food-processing enterprises. Many new industries were set up in the 1980s, including a cement plant with an annual capacity of 609,000 tons. In 1995, Oman's cement production totaled 1.4 million tons. The majority of these manufacture non-metallic mineral products followed by wood and wood products, and fabricated metal products. The Rusail industrial estate had 81 working factories by 1996, with 15 more under construction. The \$250 million Salalah Container Port opened in 1998 its hoped to be a magnet for value-added manufacturing enterprises. Another \$250 industrial port in the Sohar on which construction began in 1999 is expected to be operational in 2003. By the latest available estimate, industry comprised 40% of the GDP in 1999.

## 29 SCIENCE AND TECHNOLOGY

Most research conducted in Oman has been done at the behest of the government; agriculture, minerals, water resources, and marine sciences have drawn the most attention. Sultan Qaboos University, founded in 1985, has colleges of science, medicine, engineering, and agriculture. In 1987-97, science and engineering students accounted for 13% of college and university enrollments. The Institute of Health Sciences, under the Ministry of Health, was founded in 1982. Muscat Technical Industrial College, founded in 1984, has departments of computing and mathematics, laboratory science, and electrical, construction, and mechanical engineering. The Oman Natural History Museum, founded in 1983, includes the national herbarium and the national shell collection. All of these organizations are located in Muscat.

## 30 DOMESTIC TRADE

Though oil is the strongest basis for the Omani economy, agriculture and fishing are still very much a part of the traditional lifestyle. Most of the government's development plans are aimed at industry to support greater foreign trade, rather than to provide consumer products for the domestic market. Muscat and Matrah are the primary commercial centers. Much of the business is carried on by long-established and settled Khoja and Hindu merchants, but supermarkets and other larger retail establishments are beginning to take root.

Normal business hours are 8:30 AM to 1:30 PM and 4 to 7 PM, Saturday-Wednesday; banking hours are generally 8 AM to noon, though some banks reopen from 4 to 6 PM. Banks and businesses close at 11:30 AM on Thursday and remain closed Friday. Business hours are reduced during the Ramadan fast.

## 31 FOREIGN TRADE

Oman runs a considerable trade surplus. Since 1967, oil has been the chief export. In 2000 Oman's major export commodities were crude petroleum (80%) and motor vehicles and parts (3.4%). Other exports included tobacco (1.2%) and apparel (1.1%). In 2000 Oman's imports were distributed among the following categories: consumer goods, 18.2%; food, 13.2%; fuels, 1.7%; industrial supplies, 20.2%; machinery, 18.4%; transportation, 25.7%; and other, 2.6%.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Arab Emirates	9,505	1,487	8,018
Saudi Arabia	163	138	25
Iran	152	61	91
Yemen	152	n.a.	n.a.
United States	107	270	-163
United Kingdom	74	293	-219
China (inc. Hong Kong)	18	127	591
Germany	17	187	-109
Korea	8	174	-166
Japan	8	913	-905

## 32 BALANCE OF PAYMENTS

Oman's balance of payments account is dominated by crude oil export earnings, consumer and capital goods and services, imports payments, and by large outgoing remittances by foreign workers.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Oman's exports was \$10.9 billion while imports totaled \$5.4 billion resulting in a trade surplus of \$5.5 billion.

The International Monetary Fund (IMF) reports that in 2001 Oman had exports of goods totaling \$11.1 billion and imports totaling \$5.31 billion. The services credit totaled \$349 million and debit \$1.68 billion. The following table summarizes Oman's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>2,315</b>
Balance on goods	5,763
Balance on services	-1,329
Balance on income	-588
Current transfers	-1,532
<b>Capital Account</b>	<b>-10</b>
<b>Financial Account</b>	<b>-887</b>
Direct investment abroad	...
Direct investment in Oman	42
Portfolio investment assets	...
Portfolio investment liabilities	13
Other investment assets	229
Other investment liabilities	-1,170
<b>Net Errors and Omissions</b>	<b>-384</b>
<b>Reserves and Related Items</b>	<b>-1,034</b>

## 33 BANKING AND SECURITIES

The Central Bank of Oman, set up in April 1975, has powers to regulate credit and is authorized to make temporary advances to the government.

Banks in Oman are generally in good financial shape because of close regulation by the Central Bank of Oman. All commercial banks in the sultanate instructed to raise their paid-up capital to RO10 million for local banks and RO3 million for foreign banks. The Central Bank of Oman advised all banks which were unable to comply with these new requirements to merge with other commercial banks. The Central Bank has been encouraging

banks to merge in order to cut down on the oversupply of banking services. Banks are required to maintain a 12% level of capital adequacy and restrict consumer lending to 30% of the loan portfolio. In 2002, there were 15 local and foreign commercial banks and four specialized banks. The largest local bank is Bank Muscat, created through a merger of the former Bank Muscat and the Commercial Bank of Oman. In 2002, it had assets of \$3.4 billion, deposits of \$2.4 billion, and was followed in size by the National Bank of Oman, Oman International Bank, Oman Arab Bank, and Bank Dhofar Al Omani Al Fransi.

The British Bank of the Middle East (BBME) was the first foreign bank to establish itself in Oman in 1948. Today, foreign banks, in descending order of local branch asset size, include British Bank, Standard Chartered Bank, The British Bank, Bank of Baroda, Bank Saderate Iran, Bank Melli Iran, Banque Banorabe, National Bank of Abu Dhabi, and Citibank. The banking sector has been under pressure to increase its proportion of Omani staff to 90%, but the deadline for such a move has been progressively delayed. Because of the proliferation of branches concentrated in coastal areas, commercial banks now have to open two branches in the interior for every branch opened along the coast. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.8 billion.

An Omani stock market, the Muscat Securities Market (MSM), was officially established in 1988, but trading did not begin until the following year. By 2001 there were 91 companies listed on the exchange with a combined capitalization of \$2.6 billion. The MSM has now established a link with the Bahrain Stock Exchange (BSE) where shares can be cross-listed. A similar agreement with Kuwait is expected. The MSM Index showed a 25.4% loss in 2001 a mere four years after posting a spectacular 141% gain in 1997. The drop-off has been attributed to speculation, over-valued offerings, the impact of the Asian financial crises, and the drop in oil prices.

### 34 INSURANCE

By 1997, one national insurance firm, the Oman National Insurance Co. (SAOG), and around 17 foreign-owned firms were operating in Oman. Gross premiums for the Oman National Insurance Co. in 1995 were RO5.75 million. In 2001, \$35 million in life insurance alone was written in Oman.

### 35 PUBLIC FINANCE

Although Oman is a relatively small oil producer, oil revenues support 69% of government expenditures. The government owns 60% of Petroleum Development (Oman) Ltd. (PDO), the main oil company. Higher oil prices in 1997 and a 5% cut in capital spending produced a budget deficit of only \$47 million, a substantial improvement over 1996. With the fall in global oil prices in 1998, however, the government's budget fell deeply into deficit, and had to be financed by loans and by drawing down the State General Reserve Fund. In anticipation of still further drops in the price of oil, the government increased a number of taxes and imposed spending cuts of between 5 and 10% on most government ministries.

The US Central Intelligence Agency (CIA) estimates that in 2000 Oman's central government took in revenues of approximately \$9.2 billion and had expenditures of \$6.9 billion. Overall, the government registered a surplus of approximately \$2.3 billion. External debt totaled \$5.3 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%	9,200
Tax revenue	27.2%	2,506
Non-tax revenue	72.2%	6,643
Capital revenue	0.4%	38
Grants	0.1%	13
EXPENDITURES	100.0%	6,900
General public services	9.1%	631
Defense	35.3%	2,436
Public order and safety	5.9%	407
Education	15.9%	1,100
Health	6.6%	459
Social security	5.6%	386
Housing and community amenities	6.4%	440
Recreation, cultural, and religious affairs	1.8%	123
Economic affairs and services	9.2%	634
Interest payments	4.1%	284

### 36 TAXATION

Introduced in 1971, a corporate income tax on commercial enterprises other than individual traders remains the only tax in the country. Rates range from 5% to 50%. Legislation in 1981 reduced the maximum tax rate to 15% for companies in which Omanis hold at least a 51% equity, and to 20% for companies in which the Omani equity is between 35% and 50%. Companies engaged in agriculture, fishing and any other essential activity deemed by the government are exempt from income taxes. Oman has a comprehensive double taxation treaty with France.

### 37 CUSTOMS AND DUTIES

General import duties are 5% ad valorem on the CIF (cost, insurance, and freight) value of the good. There are a number of exempt goods, including many imports from GCC member states. Protective tariffs are levied seasonably on a number of fruits and vegetables.

### 38 FOREIGN INVESTMENT

The principal foreign investment is in the oil sector. Foreign private investment is officially encouraged in certain areas—such as industry, agriculture, and fishing—through an initial five-year tax exemption, which may be renewed for another five years. Foreign participation in a local company cannot exceed 65% (this also applies to the sharing of profits). Companies holding commercial agencies must also have at least 51% Omani participation. In 2002, the largest foreign investor was Royal Dutch Shell Oil, which holds a 34% of the shares of the state oil company, Petroleum Development Oman, and 30% of Oman Liquid Natural Gas. Other investors in the oil industry include Occidental Petroleum, Hapex, Amoco, and Elf Aquitaine. The Sultanate does not publish estimates of inbound and out-bound investment. Foreign investment in the Muscat Securities Market (MSM) has averaged 15% to 16%, but has dropped in absolute terms. In December 1999, foreign investment in the MSM was \$867.8 million. A year later this had fallen to \$730.5 million, and at the end of May 2001, foreign investment in the SMS was \$708.9 million. No systematic information is available on foreign direct investment (FDI).

### 39 ECONOMIC DEVELOPMENT

Oman's economic policy operates under five-year development plans. Oman's second five-year plan (1981–85) suffered to some extent from the impact of declining oil prices in the early 1980s. The objectives of the third development plan (1986–90) were to encourage the private sector to play a larger role in the economy and to expand such areas as agriculture, fishing, manufacturing,

and mining. The fourth five-year development plan (1991–1995), aimed to achieve average annual GDP growth rates of just over 6% and the diversification of the sources of national income in order to reduce the dependence on the oil sector. The declared aim of the fifth five-year plan (1996–2000) was to achieve a balanced budget. The fall in oil prices to near-record lows in 1998 subverted the goal of a zero budget deficit in 2000, but rising oil prices in 2000 allowed the government to cut the deficit to only 1.5% of GDP (\$301 million) in 2000. Oman's sixth five-year development plan (2001–2005) aims at lessening dependence on government spending and employment, and at making the private the engine of growth for the economy. The government's long-run development strategy is the Sultan's "Oman Vision 2020," which is designed to see the economy through the depletion of oil reserves. The emphases are on processes of "Omanization," industrialization, and privatization. One of the most successful diversification projects has been the Salalah Container Port opened in November 1998. In 2000, it handled over 500,000 FEUs (forty-foot equivalency unit) and ranked among the top ten container ports in efficiency. A new industrial port is also being built at Sohar, to be operational in 2003. In terms of developing its natural gas potential, the government took a major step in October 2000 with the inauguration of the \$2.64 billion liquefied natural gas project in Sur. Other gas development projects include plans for urea fertilizer plant in Sur, an aluminum smelter in Sohar, and petrochemical plant at Salalah. An emphasis on income diversification has opened the country to foreign participation in the form of joint ventures.

#### 40 SOCIAL DEVELOPMENT

Oman maintains a social security system that provides old-age pensions, disability and survivorship benefits to employed citizens ages 15–59. This program is funded by 5% contributions from employees and the government, and 8% contribution by employers. Retirement is set at age 60 for men and age 55 for women. Work injury legislation provides disability and medical benefits for injured workers.

Oman does not have a written constitution or anti-discrimination laws. Islamic precepts result in de facto discrimination against women in a number of areas, such as inheritance. Traditional views on the subordinate role of women in society lead most women to work exclusively inside the home. Land grants and housing loans are rarely given to females. Some progress is being made, however, and women have begun to enter professional areas such as medicine and communications in greater numbers. The government has made efforts to increase educational opportunities for women. Women comprise roughly half of the 5,000 students at Sultan Qaboos University, and 50% of the total student body in the public school system. Women are required to get permission from a male relative to leave the country. Domestic abuse remains within the confines of the family, and sexual abuse of domestic employees remains a problem.

Ethnic tensions exist in Oman, and the Shihuh tribe in the province of Musadam complain about police harassment. There have been periodic episodes of violence between Shihuh and security forces. Human rights abuses include arbitrary arrest, prolonged detention and the mistreatment of prisoners. Human rights organizations are prohibited by law from operating in Oman, and international monitors are unable to inspect prisons.

#### 41 HEALTH

As of 1999, there were an estimated 1.3 physicians and 2.2 hospital beds per 1,000 people. In 1993, 89% of the population had access to health care services. In 2000, 39% of the population had access to safe drinking water and 92% had adequate sanitation.

Average life expectancy in 2000 was 74 years. Infant mortality was 17 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 37.8 and 4 per 1,000 people. About 24% of married women (ages 15 to 49) were using contraception in 2000. The fertility rate was 4.3 children per woman living through her childbearing years.

In 1995, children up to one year old were vaccinated against tuberculosis, 96%; diphtheria, pertussis, and tetanus, 99%; polio, 99%; measles, 98%; and hepatitis B, 99%. As of 1999, the rates for DPT and measles were, respectively, 86% and 99%. About 12% of children under five were malnourished as of 1999 and goiter was prevalent in 10% of school-age children.

There were only 59 AIDS cases reported in 1996. The HIV-1 prevalence rate was 0.1 per 100 adults in 1999.

#### 42 HOUSING

In May 1973, Sultan Qabus approved the Law of People's Housing to make housing loans to needy Omanis. By 1985, 5,300 low-income units had been built. In 1989, 34% of all housing units were traditional Arabic houses, 30% were flats, and 27% were villas. Owners occupied 70% of all dwellings, 20% were rented, and 9% were provided by employers. In 2002, the government distributed 210,329 plots of land for residential development.

#### 43 EDUCATION

Pre-university education in Oman has three stages: primary, preparatory, and secondary. Six years of primary schooling are followed by preparatory school. Academic results of the preparatory exams determine the type of secondary education the student will receive.

The adult illiteracy rate was estimated at 28.1% for the year 2000 (males, 19.6%; females, 38.3%). In 1998, there were 411 primary schools with 313,516 students and 12,052 teachers. Student-to-teacher ratio stood at 26 to 1. In secondary schools in 1998, there were 12,436 teachers and 217,246 students. As of 1999, 65% of primary-school-age children were enrolled in school, while 59% of those eligible attended secondary school. In the same year, public expenditure on education was estimated at 3.9% of GDP.

In 1993, there were 252 literacy centers and 176 adult education centers. Three teachers' colleges were functioning as of 1986. The Institute of Agriculture at Nazwa became a full college by 1985. Sultan Qaboos University opened in 1986. In 1998, all higher-level institutions had 1,307 teachers and 16,032 students.

#### 44 LIBRARIES AND MUSEUMS

The library at Sultan Qaboos University has 145,000 volumes, and the Muscat Technical and Industrial College has 10,000 volumes. A British Council Library of almost 8,000 volumes was founded in 1973 in Matrah. The Ministry of National Heritage and Culture administers the National Museum of Ruwi, the Qurm Museum, and the Oman Natural History Museum, which includes the National Herbarium of Oman (a botanical garden) and the National Shell Collection.

#### 45 MEDIA

Postal, telephone, and telex systems are supervised by the Ministry of Posts, Telegraphs, and Telephones. By the end of 1991, the entire country was connected to a 79,000-line telephone network. As of 1997, there were 201,000 main telephone lines and 59,822 cellular phones. Oman now has international direct dialing to most major countries.

Radio and television facilities are government owned; color television was introduced in 1974. As of 1999 there were 3 AM and 9 FM radio stations and 13 television broadcast stations, all controlled by the government. In 2000 there were 621 radios and

563 television sets for every 1,000 people. In 2001, there were 90,000 Internet subscribers.

Newspapers and journals in Arabic include the daily *Al-Wattan* (2002 circulation, 32,500) and *Oman Daily Newspaper* (15,560) and weekly periodicals such as *Al-Aqida* and *Al-Usra*. There are two English-language newspapers: *Oman Daily Observer* (22,000) and *Times of Oman* (15,000).

A 1984 Press and Publication Law authorizes the state to censor domestic and imported foreign publications. Journalists are said to practice self-censorship to avoid harassment. Criticism of the sultan is explicitly illegal.

#### 46 ORGANIZATIONS

There is a Chamber of Commerce and Industry in Muscat. Among the social and cultural organizations are the Oman Women's Association, the Oman Cultural Club (for university graduates), the Omani National Organization for Scouts and Guides, the National Union of Oman Students, and the Omani Historical Association (open to non-Omanis).

#### 47 TOURISM, TRAVEL, AND RECREATION

Oman is cautiously developing tourism, which was discouraged by previous rulers. All travelers except citizens of other Gulf states, must obtain a visa and a No Objection Certificate. Most large hotels have clubs that offer various recreational activities; water sports are popular, but spear fishing has been prohibited as a conservation measure. In 1998, 612,000 foreign tourists visited Oman, spending an estimated \$112 million. There were 3,065 hotel rooms with 4,460 beds and a 49% occupancy rate in 1996.

According to 1999 UN estimates, the cost of staying in Muscat was \$151 per day, and \$156 per day in Salalah.

#### 48 FAMOUS OMANIS

Oman's great Islamic religious leader, whose followers are called Ibadhis, was 'Abdallah bin Ibad (fl.8th century); many of his

teachings are still followed in Oman. Ahmad ibn Sa'id (r.1741–83), founder of the present dynasty, freed Muscat from Persian rule. Sultan Qabus bin Sa'id (b.1940) has ruled Oman since his removal of Sa'id bin Taymur (1910–72), his father, in 1970.

#### 49 DEPENDENCIES

Oman has no territories or colonies.

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# PAKISTAN

Islamic Republic of Pakistan  
*Islami Jamhooria Pakistan*

**CAPITAL:** Islāmābād

**FLAG:** The national flag is dark green, with a white vertical stripe at the hoist and a white crescent and five-pointed star in the center.

**ANTHEM:** The opening lines of the national anthem, sung in Urdu, are “Blessed be the sacred land, Happy be the bounteous realm, Symbol of high resolve, land of Pakistan, Blessed be thou citadel of faith.”

**MONETARY UNIT:** The rupee (R) is a paper currency of 100 paisa. There are coins of 1, 2, 5, 10, 25, and 50 paisa and of 1 rupee, and notes of 1, 2, 5, 10, 50, 100, 500, and 1,000 rupees. R1 = \$0.0175 (or \$1 = R56.90) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system was introduced in 1966 and made mandatory as of 1 January 1979.

**HOLIDAYS:** Pakistan Day, 23 March; May Day, 1 May; Independence Day, 14 August; Defense of Pakistan Day, 6 September; Anniversary of Death of the Quaid-e-Azam, Mohammad Ali Jinnah, 11 September; Christmas and Birthday of the Quaid-e-Azam, 25 December. Religious holidays include ‘Id al-Fitr, Id al-‘Adha’, 1st of Muharram, and Milad an-Nabi.

**TIME:** 5 PM = noon GMT.

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

Situated in southern Asia, Pakistan has an area of 803,940 sq km (310,403 sq mi), extending 1,875 km (1,165 mi) NE–SW from the ranges of the Hindu Kush and the Himalaya to the Arabian Sea and 1,006 km (625 mi) SE–NW. Comparatively, the area occupied by Pakistan is slightly less than twice the size of the state of California. The enclave of Junagadh, claimed by Pakistan, and Jammu and Kashmir, divided between Pakistan and India by the 1971 “line of control,” are not included in the area. Pakistan is bordered on the NE by China, on the E by Jammu and Kashmir to the Karakoram Pass, on the E and SE by India, on the S by the Arabian Sea, on the SW by Iran, and on the W and NW by Afghanistan. The total land boundary length is 6,774 km (4,209 mi). The coastline is 1,046 km (650 mi). Pakistan’s capital city, Islāmābād, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

More than two-thirds of Pakistan is arid or semiarid. The west is dominated by the Baluchistan plateau, consisting of arid plains and ridges. Rivers, streams, and lakes exist only seasonally. The arid south ends at the rugged Makran coast and rises to the east into a series of rock-strewn ranges, the Kirthar, and to the north, the Sulaiman, which extends to the Indus plains. A semiwatered plateau surrounds Rawalpindi, bounded to the south by the salt range. Southward, the extensive Punjab plains support about 60% of the country’s population.

In the northern areas of Pakistan, the forest-clad hills give way to lofty ranges, including 60 peaks over 6,700 m (22,000 ft) high. K-2 (Godwin Austen), at 8,611 m (28,250 ft), is the second-highest mountain in the world.

The principal ranges, trending NW–SE, include several Himalayan ranges—notably the Pir Panjal and Zaskar—leading into the Karakoram Mountains. The Indus is the principal river of Pakistan. Its major tributaries are the Jhelum, Chenab, Ravi, and Sutlej.

## <sup>3</sup>CLIMATE

Pakistan’s climate is dry and hot near the coast, becoming progressively cooler toward the northeastern uplands. The winter season is generally cold and dry. The hot season begins in March, and by the end of June the temperature may reach 49°C (120°F). Between June and September, the monsoon provides an average rainfall of about 38 cm (15 in) in the river basins and up to about 150 cm (60 in) in the northern areas. Rainfall can vary radically from year to year, and successive patterns of flooding and drought are not uncommon.

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

The mangrove forests of the coastal region give way to the mulberry, acacia, and date palms of the sparsely vegetated south; the foothills support phulai, kao, chinar, and wild olive, and the northern forests have stands of oak, chestnut, walnut, pine, ash, spruce, yew, and fir. Above 3,000 m (10,000 ft), birch, dwarf willow, and juniper are also found.

Pakistan’s wide range of animal life includes the Siberian ibex, wild sheep, buffalo, bear, wolf, jackal, fox, wildcat, musk cat, hyena, porcupine, gazelle, peacock, python, and boar.

## <sup>5</sup>ENVIRONMENT

Relatively high population growth contributed to the depletion of forestland from 9.8% of Pakistan’s total area in 1947 to 4.5% by 1986, despite the forest conservation measures mandated by the Forest Act of 1927. Pakistan lost 14.5% of its remaining forest and woodland between 1983 and 1993. Deforestation has contributed to increased soil erosion, declining soil fertility, and severe flooding.

Primary responsibility for environmental matters belongs to the Environmental and Urban Affairs Division of the Ministry for Housing and Works. Laws to set air and water quality standards and regulate coastal zones to prevent pollution were under consideration in the 1980s. In the mid-1990s, Pakistan was among the 50 nations with the world’s highest levels of industrial carbon dioxide emissions, which totaled 71.9 million metric tons

per year, a per capita level of 0.59 metric tons per year. The nation's water supply is at risk due to untreated sewage along with agricultural and industrial pollutants. Only 85% of rural dwellers have pure drinking water. It is estimated that about 80% of the nation's diseases are related to impure water.

In 2001, 13 mammal species were endangered, as were 25 bird species and 5 plant species. Endangered species include the Indus dolphin, Baluchistan bear, tiger, Pakistan sand cat, snow leopard, Indian wild ass, green sea turtle, olive ridley turtle, gaviel, Central Asian cobra, Kabul markhor, chi pheasant, western tragopan, great Indian bustard, and Siberian white crane. Hunting or capturing wild animals was banned in 1981.

## 6 POPULATION

The population of Pakistan in 2003 was estimated by the United Nations at 153,578,000, which placed it as number 6 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 105 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.44%, with the projected population for the year 2015 at 204,465,000. The population density in 2002 was 180 per sq km (467 per sq mi).

It was estimated by the Population Reference Bureau that 37% of the population lived in urban areas in 2001. Karāchi is the largest city with over twelve million people in that year. The capital city, Islamabad, had a population of 1,018,000. Other large cities include Lahore, Faisalabad, and Rawalpindi, Gujranwala, Mutlan, Hyderabad, and Peshawar, each with well over one million people. According to the United Nations, the urban population growth rate for 2000–2005 was 4.1%.

## 7 MIGRATION

Some 6,000,000 Muslims migrated to Pakistan from India at the time of independence in 1947, and Muslims have continued to arrive from India in much lesser numbers since then. The Soviet military intervention in Afghanistan in December 1979 led to an influx of Afghan refugees.

After the Taliban captured Kabul on 27 September 1996, there was a new outflow of Afghan refugees to Pakistan. By March of 1997, around 50,000 new Afghan refugees entered the country. As of 1999, there were still around 1.2 million Afghan refugees living in refugee villages in Pakistan. An unknown number of unregistered Afghans were living in the main Pakistani cities of Rawalpindi, Lahore, and Karāchi. Pakistan also hosts non-Afghan refugees, including Iraqis, Iranians, and Somalis. In 2000, the net migration rate was -0.5 migrants per 1,000 population. The total number of migrants living in Pakistan was 4,243,000 in that year. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The majority of the population is Punjabi (an estimated two-thirds). Other major ethnic groups include the Sindhi, Pathan, Baloch, and Muhajirs (immigrants from India and their descendants). The Rajputs and the Jats are the most numerous of the Punjabi castes. In the area of the delta and the lower course of the Indus River are Sindhi peasant tribesmen. In the north and northwest are the hardy, warlike nomadic and seminomadic Pathans. The Balochi live in the vast western section of Pakistan and are divided into 12 major tribes, some of them purportedly of Dravidian origin. Native speakers of Urdu, the Muhajirs are refugees, or descendants of refugees, from pre-partition India. They are well represented in the cities.

## 9 LANGUAGES

Punjabi is spoken by 48% of the population; Sindhi by 12%; Siraiki (a Punjabi variant) by 10%; Pashtu by 8%; Urdu by 8%; Balochi by 3%; Hindko by 2%; Brahui by 1%; English, Burushaski, and other by 8%. During the Mughal (or Mogul) period, a fusion of local dialects and Persian produced Urdu, a "language of the camp" (*zaban-i-urdu*). Although regional languages and dialects persist, Urdu is the official language of Pakistan; while it is spoken by only a minority, it is understood everywhere except in the rural or mountainous areas on the western frontier. English also claims official status and is the lingua franca of Pakistani elite and most government ministries.

## 10 RELIGIONS

The country of Pakistan was essentially created as a Muslim homeland. Islam is the state religion and actions or speech contrary or derogatory to Islam are illegal. According to a 1998 census, some 98% of the population was Muslim, giving Pakistan one of the largest Islamic communities in the world. While most Muslims are of the Sunni and Shi'a sects, there are a few members of the Isma'ili sect concentrated at Karāchi. Ahmadis, who consider themselves Muslims but are not accepted as orthodox by other Muslim groups and were officially declared non-Muslims by the government in 1974, numbered perhaps 2,500,000 by 1985. In the 1998 census, about 2% of the population were Christians with the largest group belong to the Church of Pakistan, an umbrella Protestant organization. Roman Catholics are the next largest group of Christians. About 2% of the population are Hindus with about 2,000 temples and shrines, mostly in Sindh and Baluchistan. About 5,000 Parsis, believers in Zoroastrianism, live in Karāchi.

## 11 TRANSPORTATION

Railways are a major carrier of passenger and freight traffic. In 2002, Pakistan Railways operated 8,163 km (5,072 mi) of track.

Also in 2002, Pakistan's road system totaled 247,811 km (153,989 mi) of roads, of which 141,252 km (887,774 mi) were paved. Road traffic drives on the left. The 800 km (500 mi) Karakoram highway, built jointly by Pakistan and China to connect Islāmābād with western China, was opened in 1979. In November, 1997, the Lahore-Islāmābād motorway was opened for traffic. There were 391,400 passenger cars and 208,100 commercial vehicles in use in 2000. The road network carries 85% of all goods and passengers moving within the country. The harbor of Karāchi, which provides Pakistan with its major port, covers an area of 6.5 sq km (2.5 sq mi) and handles over 10.5 million tons annually. Port Qasim, 22 km (14 mi) south of Karāchi, was developed during the 1970s to help handle the increased shipping traffic. As of 2002, Pakistan's merchant marine operated 17 oceangoing vessels, totaling 241,832 GRT (367,093 DWT).

Pakistan had 120 airports in 2001, of which 87 had paved runways. Karāchi Airport is the main international terminus. As of July 2001, along with the government-run Pakistan International Airlines (PIA), two private carriers, Aero Asia and Shehann Air International (SAI), were operating on domestic as well as flights to Europe, the US, and the Far East. In 2001, 4,871,400 passengers were carried in scheduled domestic and international flights.

## 12 HISTORY

The ruins of ancient civilizations at Mohenjodaro and at Harappa in the southern Indus Valley testify to the existence of an advanced urban civilization that flourished in what is now Pakistan in the second half of the third millennium BC during the same period as the major riverain civilizations in Mesopotamia and Persia. Although overwhelmed from 1500 BC onward by





LOCATION: 23°41' to 37°5' N; 60°52' to 77°49' E. BOUNDARY LENGTHS: China, 523 kilometers (325 miles), including boundary of Jammu and Kashmir to the Karakoram Pass; India, 2,912 kilometers (1,812 miles); Arabian Sea coastline, 1,046 kilometers (655 miles); Iran, 909 kilometers (568 miles); Afghanistan, 2,430 kilometers (1,510 miles). TERRITORIAL SEA LIMIT: 12 miles.

large migrations of nomadic Indo-European-speaking Aryans from the Caucasus region, vestiges of this civilization continue to exist in the traditional Indic culture that evolved from interaction of the Aryans and successive invaders in the years following. Among the latter were Persians in 500 BC, Greeks under Alexander the Great in 326 BC, and—after AD 800—Arabs, Afghans, Turks, Persians, Mongols (Mughals), and Europeans, the last of whom first arrived, uniquely, by sea beginning in AD 1601.

Islam, the dominant cultural influence in Pakistan, arrived with Arab traders in the 8th century AD. Successive overland waves of Muslims followed, culminating in the ascendancy of the

Mughals in most of the subcontinent. Led initially by Babur, a grandson of Genghis Khan, the Mughal empire flourished in the 16th and 17th centuries and remained in nominal control until well after the British East India Company came to dominate the region in the early 18th century. Effective British governance of the areas that now make up Pakistan was not consolidated until well into the second half of the 19th century.

In 1909 and 1919, while the British moved gradually and successfully to expand local self-rule, British power was increasingly challenged by the rise of indigenous mass movements advocating a faster pace. The Indian National Congress, founded in 1885 as little more than an Anglophile society, began to attract

wide support in this century—especially after 1920—with its advocacy of nonviolent struggle. But because its leadership style appeared to many Muslims to be uniquely Hindu, Muslims formed the All-India Muslim League to look after their interests. National and provincial elections held under the Government of India Act of 1935 confirmed many Muslims in this view by showing the power the majority Hindu population could wield at the ballot box.

Sentiment among Muslims began to coalesce around the “two-nation” theory propounded by the poet Iqbal, which declared that Muslims and Hindus were separate nations and that Muslims required creation of an independent Islamic state for their protection and fulfillment. A prominent Bombay (now Mumbai) attorney, Muhammad Ali Jinnah, who came to be known “Quaid-i-Azam” (Great Leader), led the fight—formally endorsed by the Muslim League at Lahore in 1940—for a separate Muslim state to be known as Pakistan.

Despite arrests and setbacks during the Second World War, Jinnah’s quest succeeded on 14 August 1947 when British India was divided into the two self-governing dominions of India and Pakistan, the latter created by combining contiguous, Muslim-majority districts in British India, the former consisting of the remainder. Partition occasioned a mass movement of Hindus, Muslims, and Sikhs who found themselves on the “wrong” side of new international boundaries; more than 20 million people moved, and up to three million of these were killed.

The new Pakistan was a state divided into two wings, East Pakistan (with 42 million people crowded mainly into what had been the eastern half of Bengal province) and West Pakistan (with 34 million in a much larger territory that included the provinces of Baluchistan, Sind, the Northwest Frontier, and western Punjab). In between, the wings were separated by 1600 km (1000 miles) of an independent, mainly Hindu, India professing secularism for its large Muslim, Christian, and Sikh minorities.

From the capital in Karāchi, in West Pakistan, the leaders of the new state labored mightily to overcome the economic dislocations of Partition, which cut across all previous former economic linkages, while attempting to establish a viable parliamentary government with broad acceptance in both wings. Jinnah’s death in 1948 and the assassination in 1951 of Liaquat Ali Khan, its first prime minister, were major setbacks, and political stability proved elusive, with frequent recourse to proclamations of martial law and states of emergency in the years following 1954.

Complicating their task were the security concerns that Pakistan’s new leaders had regarding India in the aftermath of the bitterness of partition and the dispute over Jammu and Kashmir. In the early 1950s, they sought security in relationships external to the subcontinent, with the Islamic world and with the United States, joining in such American-sponsored alliances as the Baghdad Pact (later—without Baghdad—the Central Treaty Organization or CENTO) and the Southeast Asia Treaty Organization (SEATO). They received extensive American economic and security assistance.

In the years leading up to 1971, the domestic political process in Pakistan was dominated by efforts to bridge the profound political and ethnic gap that—more than geography—separated the east and west wings despite their anxiety about India and shared commitment to Islam. Economically more important, the Bengali east wing, governed as a single province, chafed under national policies laid down in a west wing dominated by Punjabis and recent refugees from northern and western India. Seeking greater autonomy, voters in East Pakistan voted the Muslim League (ML) out of office as early as 1954, resulting in a period of direct rule from Karāchi.

In 1958, the Army chief, Gen. Muhammad Ayub Khan, seized control of Pakistan, imposing martial law and banning all political activity for several years. Ayub later dissolved provincial

boundaries in the west wing, converting it to “one unit,” to balance East Pakistan. Each “unit” had a single provincial government and equal strength in an indirectly elected national legislature; the effect was to deny East Pakistan its population advantage, as well as its ability, as the largest province, to play provincial politics in the west wing.

Ayub’s efforts failed to establish stability or satisfy the demands for restoration of parliamentary democracy. Weakened by his abortive military adventure against India in September 1965 and amid rising political strife in both wings in 1968, Ayub was eventually forced from office. General Muhammad Yayha Khan, also opposed to greater autonomy for the east wing, assumed the presidency in 1969. Again martial law was imposed and political activity suspended.

Yahya’s attempt to restore popular government in the general elections of 1970 failed when the popular verdict supported those calling for greater autonomy for East Pakistan, even in the national assembly. The results were set aside, and civil unrest in the east wing rapidly spread to become civil war. India, with more than a million refugees pouring into its West Bengal state, joined in the conflict in support of the rebellion in November 1971, tipping the balance in Bengali favor and facilitating the creation of Bangladesh from the ruins in early 1972.

### Bhutto and his successors

The defeat led to the resignation on 20 December 1971 of Yahya Khan and brought to the presidency Zulfikar Ali Bhutto, whose populist Pakistan Peoples Party (PPP) had won a majority of seats in the west wing. A longtime minister under Ayub Khan, the experienced Bhutto quickly charted an independent course for West Pakistan, which became the Islamic Republic of Pakistan. He distanced Pakistan from former close ties with the United States and the west, seeking security from India by a much more active role in the Third World and especially in the growing international Islamic movement fueled by petrodollars.

At the polls, the PPP was opposed by the Pakistan National Alliance (PNA), a nine-party coalition of all other major parties including the Jamaat-i-Islami (JI) on the Islamic right, the National Democratic Party on the secular left, the Pakistan Muslim League (PML/Pagaro) in the center, Asghar Khan’s Tehrik Istiqlal (TI) on the secular right, and others. Although the results gave the PPP a two-thirds majority in parliament, allegations of widespread fraud and rigging undercut its credibility. PNA leaders demanded new elections, and Bhutto’s exercise of emergency powers to arrest them led to widespread civil strife. On 5 July 1977, the army intervened, with the support of the civil and uniformed services and tacit acceptance of the PNA leaders. In ousting Bhutto, army chief General Muhammad Zia-ul-Haq partially suspended the 1973 constitution, imposed martial law, and assumed the post of Chief Martial Law Administrator (CMLA). As calm returned to Pakistan, Zia promised elections for October 1977, but for the first of many times to come, he reversed himself before the event, arguing that he needed more time to set matters aright. And as the months passed, he began to assume more of the trappings of power, creating a cabinet-like Council of Advisers of made up of serving military officers and senior civil servants, chief among whom was longtime Defense Secretary, Ghulam Ishaq Khan, who became Finance Advisor and Zia’s strong right arm. His political base broadened by his promises of “clothing, food, and housing” to the rural and urban poor, Bhutto launched limited land reform, nationalized banks and industries, and obtained support among all parties for a new constitution promulgated in 1973, restoring a strong prime ministership, which position he then stepped down to fill. In the years following, Bhutto grew more powerful, more capricious, and autocratic. His regime became increasingly dependent on harassment and imprisonment of foes and his popular support seriously eroded by the time he called for

elections in March 1977. His PPP had lost many of its supporters, and he came to rely increasingly on discredited former PML members for support.

In mid-1978, Zia brought Bhutto to trial for conspiracy to murder a political rival in which the rival's father was killed. He also expanded his "cabinet" with the addition of several PNA leaders as advisors, and, when the incumbent resigned, he assumed the added responsibilities (and title) of president. He allowed a return of limited political activity but put off elections scheduled for fall when he was unable to get agreement among the PNA parties on ground rules that would keep the PPP from returning to power.

Bhutto's conspiracy conviction was upheld by the Supreme Court in March 1979, and he was hanged on 4 April. In the fall, and with the PNA now in disarray, Zia again scheduled, then postponed elections and restricted political activity. But he did hold "non-party" polling for district and municipal councils, only to find at year's end confirmation of his concerns about PPP strength when PPP members, identifying themselves as "Friends of the People," showed continuing appeal among the electorate.

Opposition to martial law began slowly to coalesce in 1980 when most of the PNA leadership joined with PPP leaders Ghulam Mustafa Jatoi and Nusrat Bhutto, Zulfikar's widow, to form the Movement for the Restoration of Democracy (MRD) and to demand Zia's resignation and the restoration of the 1973 constitution. But Zia, benefiting from excellent monsoons and from Ishaq Khan's sound economic policies, proceeded by a series of measures to expand the role of Islamic values and institutions in society. The public mood stayed quiescent, encouraged by Zia's regular reminders of the turmoil his predecessors had created.

Meanwhile, in neighboring Afghanistan, following a communist coup in 1978 and a Soviet invasion in 1979, Zia assumed a strong anticommunist leadership role, rallying the Islamic world and the UN. He resurrected close ties with the United States to enhance Pakistan's security and in the 1980s signed US\$3.2 and US\$4.02 billion economic and security assistance agreements with the United States. He also improved relations—normally parlous—with India with normalization in trade, transport, and other non-sensitive areas. Nonetheless, Pakistan's anxiety about the much more powerful India on its borders remained high in the absence of a solution of the dispute with India over the status of the former princely state of Jammu and Kashmir.

The Kashmir dispute cuts to the heart of the "two-nation" theory and as such is part of the unresolved legacy of the 1947 partition of British India which did not address the future of the over 500 princely states with which the British Crown had treaty ties. Most chose one or the other dominion on grounds of geography, but Kashmir bordered both new nations and thus had a real option. A Muslim-majority state, with a Hindu ruler, Kashmir opted first for neither but then chose to join the Indian Union when invaded by tribesmen from Pakistan. Open warfare ensued in Kashmir between Indian and Pakistani troops in 1948–49 and brought the dispute to the fledgling United Nations.

A UN cease-fire left a third of Kashmir under Pakistani control and the remainder, including the Vale of Kashmir, under Indian control. A 1949 agreement to hold an impartial plebiscite broke down when the protagonists could not agree on the conditions under which it would be held. Pakistan today administers its part—Azad (free) Kashmir—legally separate from the rest of Pakistan; Indian Kashmir is a state in the Indian Union, which has held stateside elections but no plebiscite.

The Kashmir issue has defied all efforts at resolution, including two additional spasms of warfare in 1965 and 1971, and subsequent Indo-Pakistan summits at Tashkent (1966) and Simla (1972). In the late 1980s, India's cancellation of election results and the dismissal of the state government led to the beginning of an armed insurrection against Indian rule by Kashmiri Muslim

militants. Indian repression and Pakistan's support of the militants has threatened to spark new Indo-Pakistan conflict and keeps the issue festering.

In Pakistan in 1984, President Zia held a referendum on his Islamization policies in December and promised that he would serve a specified term of five years as president if the voters endorsed his policies. The MRD opposed him but did not prevent what Zia claimed was a 63% turnout, with 90% in his favor. On the strength of this disputed showing, Zia announced national and provincial elections, on a non-party basis, for February 1985. The MRD again boycotted, but the JI and part of the Pakistan Muslim League (PML) supported Zia. Deemed reasonably fair by most observers, the elections gave him a majority in the reconstituted National Assembly and left the opposition in further disarray.

Ten months later, on 30 December 1985, Zia ended martial law, as well as the state of emergency he had inherited from Zulfikar Bhutto, turning over day-to-day administration to the PML's Mohammad Khan Junejo, whom he had appointed prime minister in March. He also restored the 1973 constitution but not before amending it to strengthen presidential powers vis-a-vis the prime minister. As the Eighth Amendment to the constitution, these changes were approved by the National Assembly in October 1985. They remain a contentious issue today, having subsequently played a key role in institutional tension between incumbents of the presidency and the prime ministership. In the first such instance, frictions developed slowly through 1987, but on 29 May 1988, Zia suddenly fired Junejo, alleging corruption and a lack of support for his policies on Islamization and on Afghanistan. He called for new elections in November, and in June he proclaimed the *Shari'ah* (Islamic law) supreme in Pakistan.

However, Zia was among 18 officials (including the American Ambassador) killed in the crash of a Pakistan Air Force plane two months later, leading to the succession to power of the Chairman of the Senate, Ghulam Ishaq Khan. As acting president, Ghulam Ishaq scheduled elections for November 1988 in which the PPP emerged with a strong plurality in the National Assembly. Benazir Bhutto, Zulfikar's daughter, who had returned from exile abroad in April 1986, became prime minister with a thin majority made up of her party members and independents. With her support Pakistan's electoral college chose Ghulam Ishaq President of Pakistan in his own right on 12 December 1988.

On 20 August 1990, with Bhutto and Ghulam Ishaq in a growing constitutional struggle over their respective powers, the president, with the support of the army chief, used his Eighth Amendment powers to oust her, alleging corruption, illegal acts, and nepotism. Declaring a state of emergency, he dissolved the National Assembly, named Ghulam Mustafa Jatoi (then leader of the opposition) prime minister, and called for new elections on 24 October. The Punjab high court upheld the constitutionality of his actions, and on 24 October, the voters gave a near-majority to the Islamic Jamhoori Ittehad (IJI), a multi-party coalition resting mainly on a partnership of the PML and the JI. Mian Muhammad Nawaz Sharif, PML leader and former chief minister of Punjab, became prime minister on 6 November and quickly ended the state of emergency.

During late 1992 and early 1993, the president and the new prime minister moved toward a new confrontation over the exercise of their respective powers. Challenged by Nawaz Sharif on the president's choice of a new army chief, Ghulam Ishaq again used his eighth amendment powers to dismiss the government and dissolve the assembly on 18 April, alleging mismanagement and corruption. But public reaction to the president's actions was strong, and on 26 May, a supreme court ruling restored Nawaz Sharif to power, creating a period of constitutional gridlock until 18 July when the army chief brokered a deal in which both Ghulam Ishaq and Nawaz Sharif

left office. Sharif resigned and was replaced by Ishaq Khan as interim prime minister by Moeen Qureshi, a former World Bank vice president; the president was then replaced by Wasim Sajjad, chairman of the senate.

Under Qureshi, Pakistan entered a period of fast-paced nonpartisan rule and reform in which widespread corruption was exposed, corrupt officials dismissed, and political reforms undertaken. In his actions, Qureshi was strengthened by public support and his disavowal of interest in remaining in power. He held elections as promised on 19 October, and the PPP, leading a coalition called the People's Democratic Alliance (PDA), was returned to power, with Benazir Bhutto again prime minister, this time with a thin majority. On 13 November, with her support, longtime PPP stalwart Farooq Leghari was elected president. Three years later in 1996, Leghari dismissed Bhutto and her cabinet and dissolved the National Assembly. Bhutto challenged her dismissal and the dissolution of the National Assembly in the Supreme Court. In a 6–1 ruling, the Court upheld the president's actions and found her ousted government corrupt.

Nawaz Sharif won the general election held in February 1997 with one of the largest democratic mandates in Pakistan's history. He immediately set about consolidating his hold on power by repealing major elements of the 1985 Eighth Constitutional Amendment. This transferred sweeping executive powers from the president to the prime minister. Within the next few months Nawaz Sharif dismissed his Chief of Naval Staff, arrested and imprisoned Benazir Bhutto's husband for ordering the killing of a political opponent, and froze the Bhutto family's assets. In March 1998, a warrant was issued for the arrest of Benazir Bhutto (who was abroad at the time) on charges of misuse of power during her tenure as prime minister.

The early months of 1998 were marked by increasing civil disorder in Pakistan, with sectarian killings, terrorist bombings, and violent demonstrations against a controversial Islamic blasphemy law. In January 1999, Nawaz Sharif himself escaped an apparent assassination attempt when a bomb exploded near his residence in the Punjab.

Despite increasing political opposition and a deteriorating economic situation, Nawaz Sharif's popularity received a temporary boost when Pakistan successfully tested five nuclear devices on 28 May and 30 May 1998. This was in response to India's nuclear tests earlier in the month and raised international concerns over a potential nuclear confrontation between Pakistan and India. Tensions eased when Nawaz Sharif and India's prime minister, Atal Behari Vajpayee, signed the historic "Lahore Declaration" on 21 February 1999, committing their countries to a peaceful solution of their problems.

In May 1999, however, several hundred Pakistani troops and Islamic militants infiltrated the Indian-held Kargil region of Kashmir. Two months of intense fighting brought Pakistan and India to the brink of all-out war. Under intense diplomatic pressure from the United States, but against the wishes of Pakistan's military, Nawaz Sharif ordered a withdrawal from Kargil in July 1999. This unpopular decision, plus the widely held view that Sharif was preparing to impose one-man dictatorial rule in the name of Islam, contributed to the prime minister's eventual downfall.

Distrustful of his army chief of staff, General Pervez Musharraf, Nawaz Sharif dismissed Musharraf on 12 October 1999 while he was in the air returning from a visit to Sri Lanka. However, when the general's plane was denied permission to land at Karāchi Airport, army troops loyal to Musharraf seized the airport, arrested Sharif, and returned Pakistan to military rule for the fourth time in the country's short history.

General Musharraf did not impose full martial law. Instead, he declared a state of emergency, suspended the constitution and assumed power as chief executive. Many Pakistanis welcomed the military takeover as a change from the corruption and abuses of

Nawaz Sharif's rule. Musharraf introduced modest economic reforms (mostly in the area of revenue collection), restricted the activities of Islamic extremists, and instituted policies to curb lawlessness and sectarian violence. On 23 March 2000, Musharraf announced local elections to be held over a period of seven months between December 2000–July 2001. Significantly, however, no mention was made of national elections or a return to civilian rule. Moreover, the independence of the judiciary was seriously compromised in January 2000, when Musharraf required all judges to take an oath of loyalty to his regime. Nawaz Sharif was tried and found guilty of hijacking and terrorism for trying to prevent Musharraf's plane, a commercial flight with civilians on board, from landing at Karāchi in October 1999. Sharif was sentenced on 16 April 2000 to life in prison. In December he went into exile in Sa'udi Arabia after being pardoned by military authorities.

On 20 June 2001 General Musharraf named himself president of Pakistan while remaining head of the army.

After 11 September 2001, US-Pakistani relations were transformed. Prior to the 11 September terrorist attacks on the United States, US policy toward Pakistan was restrained, stressing the need for Pakistan to curtail acts of terrorism, and a need for better Pakistani relations with India. After 11 September, Musharraf supported the US-led bombing campaign in Afghanistan and ties between the two countries were greatly strengthened. The United States removed some sanctions imposed on Pakistan after its 1998 nuclear tests, but retained others imposed after Musharraf's coup. After the Taliban were removed from power in Afghanistan in late 2001, the United States moved to strengthen counterterrorism operations in Pakistan, and to prevent al-Qaeda and Taliban fighters from regrouping in Pakistan (Pakistan shares a 1,510-mile porous border with Afghanistan). In addition, Islamic extremists from Pakistan crossed over into Afghanistan to fight against the US-led coalition.

Relations with India were seriously strained throughout 2002 and into 2003. On 13 December 2001, the Indian Parliament was attacked by 5 suicide fighters, and India blamed the attack on two Pakistan-based Islamic organizations, Lashkar-e-Taiba and Jaish-e-Muhammad, accusing Pakistan of supporting the groups and giving their leaders sanctuary. Tensions between the two countries flared, and they began to amass hundreds of thousands of troops along their shared border. Pakistan banned Jaish-e-Muhammad and Lashkar-e-Taiba, although it claimed India had not provided evidence of the groups' involvement in the attack. In January 2002, India successfully test-fired the Agni, a nuclear-capable ballistic missile. In May, Pakistan test-fired three medium-range surface-to-surface Ghauri missiles, which are capable of carrying nuclear warheads. President Musharraf stated Pakistan did not want to engage in war, although the country would be prepared to respond with full force if attacked. The standoff between India and Pakistan continued for 10 months—close to one million troops were stationed on the India-Pakistan border, the largest military build-up since the 1971 war. Most of the troops were withdrawn by October 2002, but tensions remained. In December, three Indian men were sentenced to death for aiding in the planning of the assault on Parliament. Relations between India and Pakistan worsened once again at the end of January 2003, with each nation expelling diplomats from the other, accusing them of spying. Throughout 2002 and into 2003, the two countries continued to test-fire ballistic missiles capable of carrying nuclear weapons.

During 2002, Pakistan was home to a series of violent acts directed at Western or Christian targets. In January 2002, Wall Street Journal reporter Daniel Pearl was abducted in Karachi, and was later brutally murdered. In March, a grenade attack on a church in Islamabad killed five people, including two US citizens. In May, 14 people were killed in a suicide attack on a bus in

Karāchi, including 11 French engineers. In June, 12 people were killed in a suicide attack on the US consulate in Karachi. In August, a Christian school north of Islamabad was attacked by gunmen, leaving 6 people dead. In September, 7 employees of a Christian charity in Karachi were murdered, marking the eighth high-profile attack on Christian or Western targets in Pakistan since General Musharraf began to support the US-led campaign against terrorism begun in September 2001.

In April 2002, Pakistan's military regime held a referendum on General Musharraf's presidency; 98% of the votes cast were in favor of Musharraf, giving him another 5-year term as president. In August, he unilaterally implemented 29 amendments to the constitution to grant himself the power to dissolve parliament and to remove the prime minister. He also gave the military a formal role in governing the country for the first time by setting up a National Security Council that would oversee the performance of parliament, the prime minister, and his or her government. Parliamentary elections were held on 10 October, with Quaid-e-Azam, a political faction of the Muslim League supportive of Musharraf, taking the most seats.

In October 2002, the United States confronted North Korea with evidence of its program to build nuclear weapons using enriched uranium. In November, the United States warned Pakistan not to engage in nuclear transactions with North Korea, stating it had evidence Pakistan continued to receive missile parts from North Korea possibly in exchange for nuclear plans and materials, including gas centrifuges needed to create weapons-grade enriched uranium.

On 19 March 2003, the US-led coalition launched war in Iraq. The war has been seen to have set a precedent for authorizing pre-emptive strikes on hostile states. The notion that India and Pakistan might adopt such a policy toward one another has caused international concern. In April 2003, spokesmen from both India and Pakistan asserted that the grounds on which the US-led coalition attacked Iraq also existed in each other's country.

### 13 GOVERNMENT

Pakistan came into being as a self-governing dominion in the British Commonwealth in 1947 and declared itself a republic in 1956. Under a constitution framed by Zulfikar Bhutto and effective as of 14 August 1973, it is federal in nature, and Westminster-style cabinet systems operate at the federal and provincial levels. All powers not otherwise specified are reserved for the federal government, which is armed also with extensive emergency powers in the event of a breakdown in constitutional government.

Pakistan is governed under the constitution of 14 August 1973 (as amended) which declared Islam the state religion and provided for a president as a nominal head of state and a prime minister as executive head of government. The president and prime minister were chosen by members of parliament, and the prime minister was responsible to that body, which was elected under universal suffrage at 18 years of age (the voting age was subsequently raised to 21, but then lowered once again to 18 in the October 2002 elections). In 1973, the parliament consisted of a national assembly of 200 elected members plus 10 seats reserved (until 1982) for women and 6 for tribal areas, these reserved seats filled by vote of the elected members. A senate of 63 members included 14 legislators from each of the four provincial legislatures, plus 5 seats reserved for tribal areas and 2 for the federal capital area.

This constitution was suspended in part by the martial law administration that seized power in 1977; army chief General Zia-ul Haq retained his military position while exercising executive powers as chief martial law administrator (CMLA). He took on the position of president in 1978 when the incumbent stepped down. In an interim document of 24 March 1981, Zia revived much of the 1973 constitution, although its Fundamental

Principles and its electoral provisions remained suspended until martial law was lifted in 1985. The CMLA was initially assisted by an appointive council of advisors, then by an advisory Federal Council of 277 appointed members that was formed in 1982 to assist and advise the martial law government.

The 1973 constitution was fully restored with the lifting of martial law in December 1985, although amended in a number of ways. It redressed—in favor of the presidency—the balance of powers between the positions of prime minister and president, who also remained commander-in-chief of the armed forces. It established term limits of five years for the incumbents, and provided that their successors in 1990 would be elected, the president by an electoral college composed of members of the national assembly, the senate, and the provincial assemblies, and the prime minister, by the national assembly.

In May 1994, after what appeared to be an encouraging start, Benazir Bhutto's government again appeared haunted by ineffectiveness when she failed to get her candidate elected president of the senate—effectively vice president. Instead, she was forced to acquiesce in the reelection, one more time, of the PML's Wasim Sajjad.

Bhutto was ousted in 1996 after President Leghari's charges that her government was corrupt, a move that was supported by a 6–1 supreme court ruling. Nawaz Sharif was elected in February 1997 and immediately instituted sweeping changes affecting the government, military, and economy. On 1 April 1997, both houses of the parliament voted unanimously to repeal the eighth constitutional amendment. The measure, introduced by Sharif, curtailed the president's power to dismiss elected governments and placed the appointment of provincial governors and the chiefs of the armed services in the hands of the prime minister. Sharif reduced the influence of the military in government by dissolving the Council for Defence and National Security. The prime minister also announced he was intending to place plans for introducing "Islamic government" to Pakistan before the legislature in March 2000.

President Leghari stepped down from office in December 1997, and Nawaz Sharif's strengthened his hold on the government when his nominee for president, Mohammad Rafiq Tarar, was elected by a record margin on 31 December 1997.

Sharif's government was overthrown on 12 October 1999, in a military coup staged by the army chief, General Pervez Musharraf, who suspended the constitution and assumed the title chief executive. On 20 June 2001, Musharraf appointed himself president. On 30 April 2002, a referendum held on Musharraf's presidency reaffirmed him in office for an additional five years. Musharraf promised to restore democracy, and parliamentary elections were scheduled for 10 October. On 21 August, Musharraf announced 29 amendments to the constitution. A National Security Council was established, with the president as chairperson, and the joint chiefs of staff and three service chiefs as members. It was established as a consultative body, but is to deal with matters pertaining to the "sovereignty, integrity, and security" of the state. Its complete jurisdiction has not been defined. In addition, Musharraf granted new powers to the president, including the right to dissolve the national assembly at his or her discretion, to appoint governors and to dissolve provincial assemblies in consultation with them, and to appoint the joint chiefs of staff and the three service chiefs in consultation with the prime minister. Musharraf indicated the changes would introduce a system of checks and balances between the president, prime minister, and chief of the army staff. He stated the constitutional amendments incorporated by his government were irreversible and needed no validation by the parliament to be formed after the 10 October 2002 elections.

The parliament, or Majlis-i-Shura, has two chambers. As of October 2002, the national assembly had 342 members, elected for five year terms, 272 of whom are elected in single seat

constituencies; 10 seats for minorities are filled by the nominees of political parties on the basis of the latter's strength in national assembly elections; and 60 seats for women are nominated by political parties in accordance to their share of national assembly seats per province. The senate has 100 members, elected by the provincial parliaments. Of the 66 general seats, 14 have been allocated to each of the four provinces, while the federally administered tribal areas (FATA) and the federal capital are assigned 8 (directly elected) and 2 seats (according to national assembly elections) respectively. The general seats are open to all, irrespective of gender or religion. In addition, each province has been conferred four seats for technocrats and four for women. Two seats, one for technocrats and another for women, are reserved for the federal capital.

On 10 October 2002, in the first general election since Gen. Musharraf seized power in 1999, Quaid-e-Azam, a political faction of the Muslim League supportive of Musharraf, won 118 of the 342 parliamentary seats. The Pakistan People's Party, aligned with former prime minister Benazir Bhutto, who was banned from participating, took 81 seats, and the religious 6-party coalition Muttahida Majlis-e-Amal (United Action Front or MMA) won 60 seats. The party aligned with former prime minister Nawaz Sharif, the Pakistan Muslim League-Nawaz, won 19 seats. Twelve other party groupings took seats in parliament. Although President Musharraf declared the elections to be free and fair, the European Union declared the elections to be flawed. In November, parliament elected Zafarullah Khan Jamali prime minister, to head a coalition government for three years.

## 14 POLITICAL PARTIES

Political parties have existed in Pakistan during all of its turbulent political history but have been regulated by legislation to ensure that they support the concept of Pakistan—a vestige of an early effort to repress the activities of the National Democratic Party (NDP) and the Jamaat-i-Islami (JI), which had opposed Partition in 1947. Parties have been frequently banned or restricted by the government, beginning with the 1952 ban on—and suppression of—the Communist Party of Pakistan (CPP). In most instances, banning of political activity has simply limited overt, outdoor rallies and demonstrations, while banning of parties has left the parties essentially intact, merely forcing them underground, as in the most recent ban in 1979.

In February 1981, leaders of nine political parties opposing the martial law regime, and led by the Pakistan Peoples Party (PPP), formed the Movement for the Restoration of Democracy (MRD) and by declaration called for an immediate end to martial law and restoration of the parliamentary system of 1973. Following the end of martial law in 1985, political parties were legalized, although regulated by the Political Parties Act that required all parties to register to be eligible for election. The elections that followed President Zia's sacking of Prime Minister Junejo in 1986, coupled with national elections called after Zia's subsequent death in an airplane crash in 1988, have resulted in a rebirth of full and open political activity.

The populist Pakistan Peoples Party (PPP) led by Benazir Bhutto, daughter of the late Prime Minister Zulfikar Bhutto, won a plurality in the National Assembly and formed a government with the support of appointed members and independents. The opposition coalesced around other parties, especially the Pakistan Muslim League (PML), and the Jamaat-i-Islami (JI), as well as disaffected PPP members who had been displaced when Benazir Bhutto claimed the party leadership on her return from exile overseas in 1986. One of these, Ghulam Mustafa Jatoi, joined with Nawaz Sharif, the PML chief minister of Punjab, to become leader of the opposition in the Assembly. In 1990, Jatoi became interim prime minister when Benazir Bhutto was dismissed by the president.

In the elections of fall 1990, Nawaz Sharif emerged as prime minister and leader of the Islamic Jamhoori Ittehad (IJI), a multi-party coalition based on Sharif's PML and the JI. But in elections in the fall of 1993, following the resignations of both the president and the prime minister, Bhutto's PPP, the lead party in the PDA, commanded a thin majority in the National Assembly, guaranteeing her return to power. The IJI came in a close second even though the Islamic parties suffered severe reverses nationally.

In the 1990s, party politics in Pakistan became increasingly regional, and party lines relatively porous, with much shifting of supporters into and out of the PPP and the PML. Each of these parties drew nearly 40% of the popular vote, and emerged as the only parties with national scope; both improved their positions in provincial assemblies.

In 1994, the PPP government depended on the support of former PML members and nonelected assembly members, plus leaders like Jatoi, a charter PPP member who had been in and out of the party in recent years. Similarly, during its period in power from 1990 to 1993, the PML formed a government only with the support of other parties, most of which have strength only in regional terms, mainly the JI, the Jamhoori Watan Party (JWP), the Jamiat Ulema-i-Pakistan (JUP), and the Jamiat-ul-Ulema-Islam (JUI). And both the PPP and the PML have competed successfully in forming governments in provincial assemblies only when they have recruited (or neutralized) strong regional parties, like the Awami National Party (ANP) in the Northwest Frontier Province (NWFP) and the Muhajir Quami Movement (MQM) in Sindh.

The two main political parties up until the elections of October 2002 were Sharif's Muslim League and Bhutto's Pakistan Peoples Party, with the Muslim League winning a resounding victory in the national elections held in February 1997. In 1996, noted Pakistan cricketer Imran Khan founded the Pakistan Tahreek-e-Insaf (PTI) or "Movement for Justice," a new political party dedicated to creating an "egalitarian, modern Islamic state" in Pakistan.

Unlike in the past, political parties were not banned under General Musharraf's military government, but they were sidelined from the political process until the 10 October 2002 parliamentary and provincial elections. In the general election, Quaid-e-Azam, a political faction of the PML supportive of Musharraf, came in first place. Bhutto's Pakistan Peoples Party came in third, and Sharif's PML-Nawaz was a distant fourth (both Bhutto and Sharif were barred from running). A 6-party hard-line Islamic coalition, Muttahida Majlis-e-Amal (United Action Front or MMA), came in third in the polls. The MMA is dominated by Jamaat-i-Islami, and it campaigned on an anti-American platform, voicing support for the Taliban in Afghanistan. It secured voters from the middle class and in urban areas in addition to rural ones.

## 15 LOCAL GOVERNMENT

Pakistan is divided into four provinces, each with deep historic roots and both linguistic and cultural associations, since 1972. Outside the provinces, there are Federally Administered Tribal Areas (FATA) along the border with Afghanistan, and the federal capital of Islamabad. In addition, provincial governments directly administer tribal areas within their territories.

The provinces, in order of population size, are Punjab (with its capital at Lahore), Sindh (Karachi), Northwest Frontier Province (Peshawar), and Baluchistan (Quetta), the largest in area. Under the 1973 constitution, provinces have popularly elected provincial assemblies, a governor appointed by the president, and a chief minister in whom executive power is vested. The governor acts on the advice of a chief minister who is elected from the party commanding the support of the assembly.

The senior administrative officer of each province is the chief secretary. Each province is divided administratively into divisions headed by commissioners who, like the chief secretary and the secretaries of provincial ministries, are senior members of the Pakistan Civil Service (CSP). Divisions are further subdivided into districts headed (depending on local usage) by deputy commissioners, district officers, or collectors, also members of the CSP, who manage development funds, collect the revenues, supervise the police, adjudicate disputes, administer justice, and interface with the elected councils at the local level which have limited taxing authority, decide on priorities for local development programs, and try certain local legal cases.

The Pakistan-controlled third of the original state of Jammu and Kashmir is divided into two areas. The southern portion, referred to as Azad Kashmir, is administered from Muzaffarabad by an appointed president and council of ministers. The larger portion to the north is known as the Northern Areas and is administered by a Commissioner and an elected council.

The number of seats in the provincial assemblies was increased in October 2002, and seats were reserved for women and non-Muslims. In the provincial assembly elections held on 10 October, the MMA won a landslide victory in the Northwest Frontier Province. In Punjab, the Quaid-e-Azam faction of the PML took the most seats, with Bhutto's Pakistan People's Party coming in second. The PPP came in first in Sindh, and the MMA came in first in Baluchistan.

## 16 JUDICIAL SYSTEM

Pakistan's judicial system stems directly from the system that was used in British India. The Supreme Court has original, appellate, and advisory jurisdictions. The president of Pakistan appoints the justices. Each province has a high court, the judges of which are also named by the president. Below the high courts are district and session courts, and below these are subordinate courts and village courts on the civil side and magistrates on the criminal side. There are no jury trials in Pakistan.

The British tradition of an independent judiciary has been undermined in Pakistan by developments over the last 50 years. In May 1991, for example, the National Assembly adopted legislation which incorporated the Islamic legal code, the *Shari'ah* into Pakistan's legal system. A Federal *Shari'ah* Court has the power to nullify any law it finds repugnant to Islam.

Courts in Pakistan are also subject to pressure from the executive branch, in part because of presidential power over transfer and tenure of high court justices and lower court judges. Judges in the special courts are retired jurists hired on renewable contracts so that their decisions may be influenced by a desire for contract renewal. Nonetheless, the provincial high courts and the supreme court have exercised some degree of independence in handing down a number of cases against the government. In 1996 the supreme court issued orders curtailing the powers of the executive to appoint and transfer high courts' judges.

Again, in late 1997, the issue of the appointment of judges to the supreme court led to deteriorating relations between Prime Minister Nawaz Sharif and the chief justice of the supreme court, Sajjad Ali Shah. In November, the supreme court brought charges of contempt against Nawaz Sharif, but the chief justice was forced out of office before a verdict could be handed down (a guilty verdict would have disqualified Sharif from office).

The position of the judiciary in Pakistan has also been affected by periods of military rule in the country. When General Zia al-Huq imposed martial law in 1977, military courts were given jurisdiction over trial and punishment of civilians found guilty of violating martial law regulations. The verdicts could not be appealed to a higher civilian court. Moreover, a provision of the 1973 constitution that judges could be removed only by the supreme judicial council, consisting of the chief justice and two ranking judges from the supreme court and the high courts, was

revoked by the military government in June 1979. Under the 1981 interim constitution, a new oath was imposed on all supreme court, high court, and *Shari'ah* court judges, and all laws promulgated by the martial law regime were exempted from judicial review. The supreme court chief justice and several other judges were replaced after refusing to take the oath. Although the military courts were abolished in December 1985, their decisions still cannot be appealed to civilian courts.

Similarly, in January 2000, Musharraf required all judges to take an oath of loyalty to his regime. The supreme court chief justice, Saiduzzaman Siddiqui, and five colleagues refused and were dismissed. This was just a week before the court was due to hear the first of several cases challenging the legality of the new government. Legal experts argue this action did irreparable harm to Pakistan's judiciary; with all sitting judges having accepted the military regime, there is no independent judiciary to protect the constitution.

## 17 ARMED FORCES

In 2002, Pakistan's armed forces totaled 620,000 active personnel with reserves numbering 513,000. The army of 550,000 comprised 2 armored divisions and 19 infantry divisions. The navy of 25,000 included approximately 1,200 marines and a small naval air arm. The air force, with a total strength of 45,000, had 366 combat aircraft. Paramilitary forces, including the Pakistan rangers, the frontier corps, a maritime security agency, a national guard and local defense units, totaled an estimated 290,000. It is suspected that Pakistan's nuclear arsenal has between 24 and 48 weapons, and has the capability to produce more. that Pakistan was a participant in UN and peacekeeping operations in seven regions. Defense expenditures in 2001 were \$2.6 billion, or 4.6% of GDP.

## 18 INTERNATIONAL COOPERATION

Pakistan became a member of the UN on 30 September 1947 and is a member of its specialized agencies, including ESCAP.

As an Islamic state, Pakistan is an active member of the Organization of the Islamic Conference (OIC) and participates in various Muslim Afro-Asian organizations. Pakistan also belongs to the Asian Development Bank, the Colombo Plan, G-77, and the WTO and has signed the Law of the Sea. Following the establishment of Bangladesh, Pakistan withdrew from the Commonwealth of Nations in 1972; it rejoined in 1989.

In 1960, Pakistan and India signed an Indus water basin treaty opening the way to the peaceful use and development of water resources. Pakistan, Turkey, and Iran established a tripartite arrangement, called Regional Cooperation for Development (RCD), in 1964. In 1985, Pakistan and six other South Asian countries, including India and Bangladesh, formed the South Asian Association for Regional Cooperation (SAARC).

## 19 ECONOMY

Despite steady expansion of the industrial sector during the 1990s, Pakistan's economy remains dominated by agriculture. Agriculture and industry made roughly the same contribution to GDP—26% and 25%, respectively—in 2001, although 44% of the labor force was in agriculture and only 17% industry. About 70% of export revenues are generated by agriculture or agriculture-based manufactures, with cotton alone accounting for 58.9% of the total in 2000/01. Exports of primary agricultural products are concentrated in cotton and rice. One-fourth of the land is farmed or used for grazing, and much of this is planted to food crops for domestic consumption. Pakistan is generally poor in natural resources, although extensive reserves of natural gas and petroleum are being exploited. Iron ore, chromite, and low-quality coal are mined.

This strong performance notwithstanding, a growing debt-servicing burden, large government expenditures on public

enterprises, low tax revenues, high levels of defense spending, and a rapid rise in imports with burgeoning domestic demand contributed to serious fiscal and current account deficits during the late 1980s. In response, in 1988 the government initiated a major structural reform program with World Bank and IMF support. When the country was created in 1947, there were no industries, and few banks, or mercantile firms. Since that time, industrial production has risen significantly. In 1998, industry accounted for about 26% of the GDP, compared with only 7% in 1950. Thanks in part to significant expansion of power facilities, largely in the Indus basin, the pace of economic development was particularly rapid during the 1980s. For most of the decade, the annual GDP growth rate averaged 6.5%, reflecting an expansion of over 4% annually in the agricultural sector and over 7% in value added in the industrial sector.

The government pursued policies aimed at private sector-led development, macro economic stability, and structural reforms. Overall growth indicators remained promising with the reform measures, as GDP increased by 5.5% in 1990/91 and 7.8% in 1991/92, and export growth averaged a robust 14% between 1989 and 1992. These improvements notwithstanding, reform efforts secured less than expected reductions in the country's balance of payment deficits, due in part to deteriorating terms of trade in the wake of rising oil prices during the 1991 Gulf War. Severe floods in the Sindh and Punjab provinces in late 1992 and a contraction in international commodity markets weakened Pakistan's export sector during 1992/93, further exacerbating the country's trade and current account deficits and helping to reduce GDP growth to only 3% in 1993. In March of 1994 the government received IMF approval of a three-year Enhanced Structural Adjustment Facility (ESAF) to support reforms. The IMF wanted austerity measures aimed at reducing the government deficit to 4% of GDP, a reduction in the maximum tariff rate from 70% to 45%, increased privatization of large state-owned enterprises, and a tax on agricultural income. However, the government's failure to follow the IMF recommendations and liberalize the economy caused the IMF to suspend the \$1.5 billion loan in mid-1995. The suspension of the loan worried investors and damaged Pakistan's debt ratings. The trade deficit grew, foreign exchange reserves dwindled, and inflation remained high.

After the government recommitted itself to reform, the IMF approved a new \$600 million standby arrangement in September. Still, by 1996 the economy was in its worst recession in 25 years. Tax receipts were falling well below their targets and export earnings had declined, leaving the government with a deepening foreign-exchange crises as reserves fell to only \$500 million by the end of the year. By mid-1997, the government owed \$1.6 billion in interest on \$30 billion owed to foreign creditors, putting the country perilously close to default. Growth in GDP was only 1.2% in 1997, down from 6.1% in 1996. Growth rebounded to 4.2% in 1998/99 as per capita income reached \$434, up from \$400 in 1990. However, Pakistan came under international economic sanctions following its six nuclear bomb tests in May 1998, and then again after the elected government was overthrown in a military coup in 1999. The growth rate declined to 3.9% in 1999/00 and then to 2.5% in 2000/01, as per capita income fell to \$397. Net public debt in 2000/01 rose to 103.8% of GDP. In November 2000, the government entered into a 10-month stand-by agreement with the IMF preliminary to the rescheduling of \$1.8 billion of sovereign debt with the Club of Paris countries in January 2001. After the 11 September 2001 terrorist attacks on the United States, more concessional finance was made available. In December 2001, Pakistan entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF), and under a new Paris Club agreement, over \$12 billion of national debt was rescheduled. Net public debt in 2001/02 decreased marginally to 96.2% of

GDP. GDP growth rose slightly to 3.6% and inflation eased to 2.7%, down from 4.4% the year before. The most improved economic indicator was foreign reserves, which rose from about \$900 million in 1999 to over \$10 billion in March 2003.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Pakistan's gross domestic product (GDP) was estimated at \$299 billion. The per capita GDP was estimated at \$2,100. The annual growth rate of GDP was estimated at 3.3%. The average inflation rate in 2001 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 26% of GDP, industry 24%, and services 50%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1.075 billion or about \$8 per capita and accounted for approximately 1.7% of GDP. Worker remittances in 2001 totaled \$1.086 billion. Foreign aid receipts amounted to about \$14 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 \$388. 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 1%. Approximately 45% of household consumption was spent on food, 19% on fuel, 6% on health care, and 5% on education. The richest 10% of the population accounted for approximately 27.6% of household consumption and the poorest 10% approximately 4.1%. It was estimated that in 2001 about 35% of the population had incomes below the poverty line.

## 21 LABOR

In 2002, the labor force was estimated at 40.4 million. In 1999, agriculture accounted for 44% of the total workforce, services 39%, and industry for 19%. Some 70% of rural residents engage in agricultural pursuits. Unemployment and underemployment are major problems; while unemployment was officially 6.3% in 2001, underemployment has frequently gone as high as 25%.

There are sizable numbers of Pakistani workers in the Middle East and European countries, most of them from the poor regions of Pakistan's NWFP. There are also several million refugees from Afghanistan who have become part of the Pakistan labor force in those regions and in Karachi.

The trade union movement is of recent origin. The principal federations include the National Labor Federation and the All Pakistan National Federation of Trade Unions. Labor-management differences are handled by the central conciliation machinery, established under the provisions of the Industrial Disputes Act of 1947. Benefits such as bonuses, paid holidays, and job security regulations are set forth in the basic West Pakistan Industrial and Commercial Employment Ordinance of 1968. In 2002, approximately 10% of the industrial labor force was unionized, and 3% of the total workforce. The government curtails union activity. Although collective bargaining is protected by law, government restrictions preclude bargaining by large segments of the labor force.

The practice of child labor is widespread. According to a government survey, three or four million children between the ages of five and 14 worked as of 2002. However, informal estimates have placed this figure as high as 8 to 10 million. There may also be some 20 million bonded laborers in Pakistan. Bonded labor is particularly common among the persecuted Christian minority. Children are often kidnapped to serve as forced labor. The minimum wage for unskilled workers was \$30



per month in 2002. There is a maximum workweek of 48 hours, but most employees are unaware of these work restrictions.

## 22 AGRICULTURE

Agriculture engaged 44% of the economically active population in 1999. Agricultural production increased by an annual average of 4.4% during 1990–2000, accounting for 26% of GDP in 2001. The development of a huge irrigation network covering two-thirds of the total cultivated area—together with massive land reclamation projects—has made possible the farming of vast tracts of previously barren and unusable land. The Indus Valley of Punjab is Pakistan's agricultural heartland. There are two principal growing seasons: the kharif season starts between April and June and ends between October and December, while the rabi season starts between October and December and ends during April or May. Grains constitute the most important food crops, with wheat, rice, corn, and citrus the major products. Cotton, the most important cash crop, generates more foreign trade income than any other export item. Cotton production suffered in the late 1990s from leaf curl virus. In 2001/02, production totaled 8.3 million bales. Rice, sugarcane, tobacco, rapeseed, and mustard are also large export earners. Rice covers 11% of all cropland—production in 2001/02 totaled 3.88 million tons.

Improved government policies over the past decade have made Pakistan a net exporter of guar products, tobacco, cotton, and rice. Other major agricultural exports include molasses, fruits and vegetables, guar and guar products, and tobacco. Principal crops with 1999 output (in thousands of tons) were wheat, 17,790; sugarcane, 53,104; and rice, 6,900. Production of sunflower seed amounted to 120 tons in 1999. Other crops include millet, barley, sesame, flax, groundnuts, mangoes, citrus fruits, and vegetables. Opium poppies are grown in the North-West Frontier Province (with an estimated 95 tons produced in 2001), government efforts to stamp out the opium and heroin trade have helped reduce production by over 95% since the mid-1980s.

Farming production remains limited by primitive methods, and mechanization is uncommon. The introduction of improved wheat and rice varieties has met with some success, although the greatest impact on agriculture has derived from the Indus basin irrigation schemes, which by the 1970s had provided Pakistan with the largest irrigated network in the world. The availability of water has made possible increased use of chemical fertilizers, with the most intensive consumption occurring in cotton production. The government has instituted soil conservation, farm mechanization, land reclamation, and plant protection programs.

To increase smallholders' equity and provide further incentives for agricultural improvement, the government decreed in 1959 that the maximum holding for any person should be 200 ha (500 acres) of irrigated land or 400 ha (1,000 acres) unirrigated. Land in excess of these amounts was acquired by the government and paid for in interest-bearing 30-year bonds. In March 1972, the maximum permissible size of a holding, measured in terms of production index units, was reduced by two-thirds, with the government empowered to confiscate without payment all excess land for free redistribution to landless peasants and small tenants. To help the new landowners, the government provided loans for purchase of seed, feed, and bullocks. In accordance with a statement of national agricultural policy issued in 1980, the Agricultural Price Commission was established to provide incentives to Pakistani farmers through higher prices for farm products.

## 23 ANIMAL HUSBANDRY

Some 30 to 35 million people are engaged in the livestock industry. Camels are used for transport throughout the more barren south and west, and bullocks and donkeys elsewhere.

Sheep range widely over the grazing lands of middle and northern Pakistan; the bulk of their wool is exported. Among local breeds of cattle, the Red Sindhi, the Tharparker, the Sahiwal are renowned for milk, and the Bhagnari and Dhanni for draft purposes. The production of powdered milk, cheese, butter, and ice cream is carried out by several large dairy plants. From 1984 to 1990, milk production increased by 41%, and meat production rose 48%. Even so, domestic milk production still falls short of demand. Poultry production has recently become prominent, especially through scientific research in breeding, feeding, and disease control. With the assistance of the Asian Development Bank, several livestock development projects are currently underway.

In 2001 there were 23.3 million buffaloes, 22.4 million head of cattle, 49.1 million goats, and 24.2 million sheep. Commercial poultry numbered 170.1 million broilers and 10.36 million layers in 1999. There were also an additional 108 million poultry kept by people in rural areas. Modern poultry production in Pakistan is constrained by high mortality and incidence of disease in chicks and an inefficient marketing system. The livestock industry contributed 37% to the total value of agricultural output in 1998/99, and 9% to GDP. Production estimates for 2001 included (in tons): beef, 428,000; mutton, 508,000; poultry, 338,000; wool, 39,200; and milk, 7,338,000. In an effort to increase domestic milk production, the government has initiated a comprehensive livestock development program with \$55 million in assistance from the Asian Development Bank. The government has also broadened extension and artificial breeding services, taken measures to improve slaughterhouses, and introduced high-yield fodder varieties. Cattle dung is an important cooking fuel and fertilizer.

## 24 FISHING

With a coastline of 814 km (506 mi), Pakistan is rich in fishery resources that remain to be fully developed. Almost the entire population of the coastal areas of Sindh and Balochistan depends on fisheries for its livelihood. During 1998/99, fisheries engaged 404,500 persons, of which 113,850 were in the marine sector and 290,600 were involved with inland fishing. The fish catch in 2000 was 614,829 tons, 70% of it landed off coastal waters. Species include salmon, mullet, pomfret, mackerel, shrimp, and local varieties. About 10% of the annual catch is exported. Export earnings from fish products amounted to \$149.4 million in 2000.

To exploit potential fishery resources, the government has undertaken such projects as construction of a modern harbor for fishing vessels at Karāchi, procurement of diesel-powered vessels, establishment of cold storage and marketing facilities, export of frozen shrimp, and encouragement of cooperative fish-marketing societies. An aquaculture project financed by the Asian Development Bank and the EU aimed to increase the annual fish catch and to promote prawn farming.

## 25 FORESTRY

Of Pakistan's depleted forest resources, amounting to about 3.1% of the total area, only about 1,748,000 ha (4,319,500 acres) are classified as commercial or productive forests. Privately-owned forests cover some 3,783,000 ha (9,348,000 acres), located primarily in the North Western Frontier Province (NWFP) and Punjab. Hill forests predominate in the north and northwest temperate and subtropical regions. Fir, spruce, deodar, bluepine, chirpine, Chalghoza, and juniper, as well as broadleaved species like oak, maple, walnut, poplar, and chestnut are found in the hill forests. These forests are the main source for constructional timber and supply great quantities of fuelwood, while providing groundcover to the fragile mountain ecosystems (thereby lessening floods and droughts in the plains). Forests in the foothills consist of broadleaved evergreens, with main species of olive and phulai. Irrigated plantation forests grow such species

as sheesham, mulberry, bakain, and semal, mostly for timber, furniture, and sporting goods production.

About 500,000 cu m (17.6 million cu ft) of timber is produced annually by state forests, which are under the authority of the Pakistan Forest Institute. During 1990–2000, the annual average rate of deforestation was 1.5%. In its 1999–2004 five-year plan, the government plans to implement 151 reforestation projects, and a cost of r1.6 billion. The total timber cut in 2000 was 20,848,000 cu m (735.9 million cu ft), with 91% consumed as fuelwood. Since forest resources are limited, Pakistan must import wood and wood products in increasing volumes to satisfy rising demand. In 2000, forest product imports totaled \$137 million.

## 26 MINING

Except for petroleum and natural gas, mineral reserves in Pakistan were meager and of poor quality. Chromite was one of the few valuable minerals available; production of chromium content rose to 12,080 tons in 2000, from 3,998 in 1998. It had previously risen from 1,090 tons in 1988 to 10,380 in 1991. Construction materials were a leading industry in the country. In 2000, small quantities were produced of aragonite; barite; bauxite; bentonite; celestite; chalk; dolomite; emery; feldspar; fire clay; fluorspar; fuller's earth; crude gypsum; kaolin (china clay); limestone and other stone; crude magnesite; marble; nitrogen, in ammonia; phosphate rock; natural mineral pigments; rock and marine salt; bajir, common, and glass sand; caustic soda; soapstone; strontium minerals; native sulfur; and talc and related materials.

Pakistan's inadequate infrastructure, poorly educated workforce, and pervasive violence have been major obstacles to attracting foreign investment. The Minister for Petroleum and Natural Resources invited the Iranian government in 2000 to invest in copper exploration and development, and to manage the mothballed Saindak copper-gold-molybdenum-silver mining and metallurgical complex, in Baluchistan's Chagai Hills. Also interested in acquiring the Saindak project were China—whose China Metallurgical Construction Corp. built the mine and plant—and BHP of Australia; mining stopped at Saindak in 1996. BHP and Australia's Mincor Resources formed an alliance to explore and develop large porphyry-style copper deposits in the Chagai Hills; the joint venture initially was to focus on the Reko Diq Complex, possibly one of the world's largest copper deposits with more than 7 million tons of copper and 342,000 kg of gold. The Geological Survey of Pakistan reportedly discovered a total of 400 million tons of commercially viable iron ore in Baluchistan and the North West Frontier (NWF), to be mined by open-cut methods. The NWF government was considering reviving the Swat emerald mine, at Mingora. The discovery of a large low-ash, low-sulfur lignite deposit in the Tharparkar desert may increase the importance of Pakistan's coal.

## 27 ENERGY AND POWER

In early 2002 Pakistan had crude oil reserves estimated at 298 million barrels (chiefly at the Meyal oil field, near Rawalpindi) and large natural gas reserves of 611 billion cu m (mainly at Sui, Baluchistan). In the early and mid-1980s, accelerated exploitation of these resources reduced the nation's oil imports and improved its trade balance. Crude oil production peaked in 1991 at 62,000 barrels per day.

Oil, about two-thirds of which is imported, satisfies about 43.5% of primary energy needs, natural gas (38.3%), coal (5.1%), while the remainder is met by hydroelectricity and nuclear power. Energy production in 2001 included petroleum, 57,000 barrels per day; natural gas, 22.6 billion cu m (798 billion cu ft); and coal, 3.8 million tons. Electricity generation in 2000 totaled 64.1 billion kWh, of which 64.1% came from thermal plants, 35.3% from hydroelectric sources, and less than 1% from nuclear power. Consumption of electricity in 2000 was 7.5 billion

kWh. Installed electrical generating capacity in 2001 was 17,726,000 kW.

Two factors have contributed to the growth of the electric power sector: the initial harnessing of the vast hydroelectric potential of the Indus basin (estimated at 25,000 MW) and the increased availability of natural gas as a fuel for thermal generators. The Tarbela Dam, the world's largest earth- and rock-filled dam, completed in 1976 at a cost of \$1.1 billion, generates 2.1 million kW of hydroelectric power. Pakistan's nuclear plant at Karāchi has a single 137 MW reactor that began commercial operation in 1972.

Despite increases in installed generating capacity, Pakistan faces chronic electricity shortages due to rapid demand growth, transmission losses due to outdated infrastructure, power theft, and seasonal reductions in the availability of hydropower. Rotating power outages are common and many villages are not yet electrified. As of 2002, less than half of Pakistan's population was connected to the nation's power grid.

Since 1947, the government has given the highest priority to development of the industrial sector, and by 2002 had developed a fairly broad industrial base. In 2000/01 industry accounted for 25.2% of GDP, of which 17.4% was from manufacturing; 3.9% from electricity and gas utilities; 3.4% from construction and 0.5% from mining. Industry employs about 17% of the work force (1999 est.)

## 28 INDUSTRY

During the 1960s and 1970s, light industry expanded rapidly—especially textiles, sugar refining, fertilizers, and other manufactures derived from local raw materials. Large government investments in the 1970s established the country's first large-scale ship-building and steel milling operations; the production of chemical fertilizers was also given special government support. The Pakistan Industrial Development Corp., established in the early 1980s with IDA credit, developed industrial estates for small- and medium-scale industries, assisting their occupants in obtaining credit, raw materials, technical and managerial assistance, access to production facilities, as well as marketing support. Despite steady overall industrial growth during the 1980s, the sector remains concentrated in cotton processing, textiles, food processing and petroleum refining.

The 1973 nationalization program, which placed 10 basic industries wholly within the public sector, was reversed in 1991 with the enactment of an ambitious privatization program. In 1992, the government began auctioning off majority control in nearly all public sector industrial enterprises, including those manufacturing chemicals, fertilizers, engineering products, petroleum products, cement, automobiles, and other industrial products requiring a high level of capital investment, to private investors. In 1995, however, the speed of privatization began to slow as the sale of some large state-owned units were stalled and postponed. In 2002, the public industrial sector, under the Production Wing of the Ministry of Industries and Production consisted of eight public holding companies—Pakistan Steel, the State Cement Corporation (PACO), Federal Chemical and Ceramics Corporation (FCCC), State Petroleum Refining and Petrochemical Corporation (PERAC), State Engineering Corporation (SEC), the Pakistan Industrial Development Corporation (PIDC), the state fertilizer corporation and Pakistan Automobile Corporation. The majority of the 74 production enterprises controlled by these holding companies have been privatized, and most of those remaining are scheduled to be sold. The public sector continues to dominate in steel, heavy engineering, automobiles, petroleum and defense-related production.

Cotton textile production is the most important of Pakistan's industries, accounting for about 19% of large-scale industrial employment, and 60% of total exports in 2000/01. Pakistan has become self-sufficient in cotton fabrics and exports substantial

quantities. Some long and extra-long staple cotton is imported to meet demand for finer cottons. About 80% of the textile industry is based on cotton, but factories also produce synthetic fabrics, worsted yarn and jute textiles. Jute textile output amounted to 70,100 tons in 1999/00. The textile industry as a whole employs about 38% of the industrial work force, accounts for 8.5% of GDP, 31% of total investment, and 27% of industrial value-added.

Other important industries include food processing, chemicals manufacture, and the iron and steel industries. Food processing is considered Pakistan's largest industry, accounting for slightly more than 27 of value-added production. Pakistan Steel, the country's only integrated steel mill, employs about 14,500 workers and has an annual production capacity of 1.1 million tons. The government plans to expand the mill's annual capacity to 3 million tons. Pakistan Steel produces coke, pig iron, billets, hot and cold rolled coils and sheets, and galvanized sheets. In June 1999, the first tin-plating plant began operation, a joint venture with Japan.

Pakistan has ten fertilizer plants, six state-owned and four private, with a total annual production capacity of 4.65 million tons. Production in 2000/01 was 3.66 million tons, up 10.5% from 1999/00. There are 21 cement plants, four state-owned and 17 private, with an annual production capacity of 19.2 million tons. Production in 1999/00 was 9.9 million tons., up 4% from 1999/98. Pakistan's chemical industry produces an number of basic chemicals used in its other industries, including soda ash, caustic soda and sulfuric acid. Industrial output from other major industries also includes refined sugar, vegetable ghee, urea, rubber tubes, electric motors, electrical consumer products (light bulbs, air conditioners, fans refrigerators, freezers, TV sets, radios, and sewing machines), and pharmaceuticals

## 29 SCIENCE AND TECHNOLOGY

Pakistan has made notable advances in nuclear technology since the 1980s, when its Atomic Energy Commission (AEC) developed a nuclear plant for electric power generation and research programs. The AEC's three nuclear centers for agricultural research have employed nuclear techniques to improve crop varieties. Six nuclear medical centers provide diagnosis and treatment of patients with radioisotopes produced from Pakistan's own uranium resources. In May 1998, Pakistan conducted nuclear weapons tests in the desert of the Chagai Hills in response to Indian testing earlier that month. Five nuclear bombs were fired on 28 May and a sixth on 30 May.

The Karāchi Export Processing Zone (EPZ), established in 1980, has attracted foreign capital investment in advanced technologies. Another EPZ has been proposed for Lahore. EPZ now include those for computer assembly and parts manufacture, television assembly, other electrical and electronic products, and engineering.

Scientific learned societies include the Pakistan Academy of Science (founded in 1953 at Islāmābād), the Pakistan Association for the Advancement of Science (founded in 1947 at Lahore), and the Scientific Society of Pakistan (founded in 1954 at Karāchi). The Pakistan Council for Science and Technology is the chief government advisory body. The Pakistan Council of Scientific and Industrial Research and the Pakistan Medical Research Council (both in Karāchi), and the Pakistan Agricultural Research Council (in Islāmābād) promote research in their respective fields. In 1987–97, research and development expenditures totaled 0.92% of GNP; 72 scientists and engineers and 13 technicians per million people were engaged in research and development in Pakistan in the 1990s. In 1996, Pakistan had 28 universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 32% of college and university enrollments.

## 30 DOMESTIC TRADE

The government supervises the supply and pricing of essential commodities, including fruits, vegetables, livestock, and dairy products, and has established several cooperative marketing and distribution organizations. Foreign goods are brought in by large importing concerns, centered at Karāchi, and distributed to retailers through many intermediaries.

There are several produce exchanges at Karāchi, and the trade organizations are represented by the Federation of Chambers of Commerce and Industry. Large supermarkets and department stores have not yet developed in the nation. Chain stores for clothing have become popular in major cities, with shops carrying locally produced goods. Most retail establishments are small or medium-sized, owned by a family or an individual. Government-owned "Utility Stores" carry food and household items at controlled prices. As of 2002, there were about 200,000 retail outlets throughout the country. Steps have been taken to improve marketing and distribution facilities throughout the country. Advertising remains small in scope, in part because of the high rate of illiteracy. Outlets include television, newspapers, posters, handbills, and color slides shown in the motion-picture houses.

Banks are customarily open from 9 AM to 1 PM. Private businesses and multinationals usually operate from 9 AM to 5 PM during weekdays. Most businesses are closed on Sunday. Many international firms are also closed on Saturdays.

## 31 FOREIGN TRADE

Pakistan has suffered a weak trade position since the early 1970s, as the cost of oil imports have risen while prices for the country's main exports have declined on the international market. Exports fell 2.5% and imports dropped 20% in 1998, but by 2000 they were back on the upswing, growing at 8.3% and 19%, respectively. Pakistan's commerce ministry estimates that up to \$1.5 billion of unregistered trade occurs annually, mostly from smuggled imports.

The important commodity exports for Pakistan are cotton, textiles, and clothes. Other major exports include rice and leather. The following chart shows the top 10 exports:

	% OF COUNTRY TOTAL
Made-up textile articles	14.7
Textile yarn	12.9
Cotton fabrics	11.7
Woven manmade fiber fabric	11.1
Rice	5.8
Knitted undergarments	5.7
Headgear	5.1
Men's outerwear, not knit	4.5
Toys and sporting goods	2.3
Leather	2.2

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

Consumer goods	3.7%
Food	13.1%
Fuels	33.2%
Industrial supplies	30.3%
Machinery	13.9%
Transportation	5.3%
Other	0.5%

Smuggled goods (tea, soap, domestic appliances, batteries, tires, bicycles, and televisions) enter the country primarily from Afghanistan.

During the 1980s, the United Kingdom, traditionally Pakistan's most important trading partner, slipped behind the United States, Japan, and Germany. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	2,276	667	1,609
China (inc. Hong Kong)	788	550	238
United Kingdom	601	351	250
United Arab Emirates	574	1,191	-617
Germany	518	395	123
France	284	214	70
Korea	265	362	-97
Sa'udi Arabia	246	1,163	-917
Japan	238	618	-380
Kuwait	n.a.	1,293	n.a.

### 32 BALANCE OF PAYMENTS

Pakistan's payments problems have been chronic since the 1970s, with the cost of oil imports primarily responsible for the trade imbalance. The growth of exports and of remittances from Pakistanis working abroad (mostly in the Middle East) helped Pakistan to keep the payments deficit in check. Since the oil sector boom began subsiding in the early 1980s, however, remittances declined. Remittances from overseas workers peaked at \$2.9 billion in 1982/83, then dropped to \$1.4 billion by 1997/98 and \$1 billion from 1999 to 2001. This trend especially accelerated during the Gulf War, when nearly 80,000 Pakistanis in Kuwait and Iraq lost their jobs. Only about 25% of these jobs had been regained a year after the end of the conflict. Increased imports and softer demand for Pakistan's textiles and apparel in major markets also caused the current account deficit to further increase. The balance of payments position weakened in 1995/96 as imports grew by 16% and exports by only 6%. The rupee was devalued by 11% during 1995 and 1996 to encourage exports. Nevertheless, foreign reserves fell to around \$800 million by mid-1997. By 2000, foreign debt equaled 100% of GDP.

The government took steps in the early 2000s to liberalize and deregulate the exchange and payments regime. Pakistan moved to a dual exchange rate system in 2000. An increase in liquid foreign exchange reserves in 2001 was due in part to outright purchases from the kerb market and inflows from international financial institutions. Export growth in 2000/01 was primarily due to higher exports of primary commodities such as rice, raw cotton, and fish, and other manufactures such as leather, carpets, sporting goods, and surgical instruments. Imports increased in 2000/01 primarily due to higher imports of petroleum and petroleum products, and machinery.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Pakistan's exports was \$8.8 billion while imports totaled \$9.2 billion resulting in a trade deficit of \$399.9 million.

The International Monetary Fund (IMF) reports that in 2001 Pakistan had exports of goods totaling \$9.13 billion and imports totaling \$9.74 billion. The services credit totaled \$1.46 billion and debit \$2.33 billion. The following table summarizes Pakistan's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	1,880
Balance on goods	-608
Balance on services	-871
Balance on income	-2,079
Current transfers	5,438
<b>Capital Account</b>	...
<b>Financial Account</b>	-399
Direct investment abroad	-31
Direct investment in Pakistan	383
Portfolio investment assets	...
Portfolio investment liabilities	-192
Other investment assets	54
Other investment liabilities	-613
<b>Net Errors and Omissions</b>	716
<b>Reserves and Related Items</b>	-2,197

### 33 BANKING AND SECURITIES

The central banking institution is the State Bank of Pakistan (SBP), established in 1948 at Karāchi and with branches in the larger cities. The government holds 51% of the bank's paid-up capital; 49% is held by corporations, societies, and individuals. The State Bank has exclusive responsibility for the issuance of currency; it is the financial agent of the central and provincial governments, and is responsible for the flotation and management of the public debt. As of 2002, there were 44 commercial banks and 36 non-banking financial institutions (NBFI's) in Pakistan. Of the commercial banks, 25 were domestic (with over 7,000 branches) and 19 were foreign (with 78 branches). Citibank is the largest foreign bank operating in Pakistan. NBFI's included 10 development financial institutions, 16 investment banks, four housing finance companies, two venture capital companies, and four discount houses. Consumer banking in Pakistan is largely undeveloped; commercial banks lend predominantly to corporations. There is a minimum capital level of 8% on all risk assets. The total volume of default loans from all financial institutions in 1998 was \$2.8 billion.

The nation's largest commercial banks were nationalized in 1974 and regrouped under five state banking institutions: the National Bank of Pakistan, Habib Bank, United Bank, Muslim Commercial Bank, and Allied Bank of Pakistan. The government-controlled banking system thus comprised all but a few of the nation's banks and accounted for a large share of total bank deposits and outstanding domestic credit. In 1981, in accordance with the Islamic condemnation of usury, virtually all banks opened special accounts for depositors who preferred, in lieu of interest, to share in the profits or losses from investments made with their money. In 1985, all savings accounts stopped yielding interest and converted to sharing in profit and loss. Pakistan instituted banking reforms in 1991. The Muslim Commercial Bank and the Allied Bank of Pakistan Ltd. reverted to private ownership shortly thereafter. In 1991 banking licenses were granted to private commercial banks that wanted to establish foreign bank branches in the country. Major weaknesses persist and are particularly marked in the case of the four remaining government-run commercial banks, which account for the bulk of deposits and advances. The government announced plans to privatize Habib Bank in 1998.

The portfolios of the state-owned development finance institutions, which provide the bulk of long-term lending to industry and agriculture, likewise tend to be of poor quality. Their lending is less diversified and more risky than that of commercial banks, while their costs are higher and margins lower. The state provides credit through the Agricultural Development Bank of Pakistan and the House Building Finance Corp. Industrial loans are made available through the Pakistan Industrial Credit and Investment Corp. (established in 1957), the Industrial Development Bank of Pakistan (1961), and the National Development Finance Corp. (1973). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$15.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$26.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 8.49%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

There are stock exchanges at Lahore, Karāchi, and Islāmābād, with Karāchi accounting for a major share of the business. In 2001, there were 747 listings on the Karāchi Stock Exchange, the largest of the country's three bourses, down from a peak of 782 in 1996. Total market capitalization was \$4.9 billion, down 25% from the previous year and well below the peak of \$12.2 billion

in 1994. The KSE 100 Index was also lower than the previous year, by 15.6% at 1,273.

### 34 INSURANCE

Pakistan's life insurance sector, nationalized in 1972, operated under the aegis of the State Life Insurance Corp. and Postal Life Insurance until 1992, when the government opened it to private sector participation. Foreign companies are no longer barred from the life insurance business, but they are restricted to minority ownership. Private companies function in nonlife insurance areas, but the government insurance business is controlled by the National Insurance Corp. One of the state's first steps was to standardize and reduce premium rates and to encourage coverage among a wider segment of the population. In 2001, there was US\$168 million of life insurance written in Pakistan.

### 35 PUBLIC FINANCE

The fiscal year extends from 1 July to 30 June. The federal government frames two separate budgets: revenue (current account) and capital. Deficits have appeared since 1971/72, a combined result of the loss of revenues from East Pakistan, stepped-up defense expenditures, lax spending controls, and a low and inelastic tax base. Current expenditures (debt service, defense, administration) now consume over 70% of the budget, while development needs (education, health, energy, and rural development) receive the remainder. Tax revenues have not kept pace with expenditure growth due to widespread evasion, corruption among tax officials, overreliance on foreign trade taxes, and a tax exemption for agricultural income, which comprises 24% of GDP.

The budget deficit was hovering at about 6.2% of GDP in 1995 and 1996 and was projected to reach almost 7% in 1997. Interest payments on the accumulated debt threatened to bankrupt the government by mid-1997. As a condition for a \$1.6 billion loan from the IMF and World Bank, the government agreed to reduce the deficit to 4% of GDP. To do so, the government attempted to raise revenues by expanding the tax base beyond the 1% of Pakistanis who then paid income tax. Other proposals included a reduction in government payrolls, improved tax administration, and an end to the tax exemption for agricultural income. The IMF approved an Enhanced Structural Adjustment Facility in January 1999, when Pakistan was almost halfway through the three-year Structural Adjustment Program worth \$1.6 billion. In April 2000, the IMF discovered that the former Prime Minister Nawaz Sharif had purposely minimized reports of the government's budget deficit, by about 1%, in order to keep the extra \$2 billion in funds. Despite the dismal financial situation, the government has yet to reduce defense spending which accounts for almost 25% of the budget.

The US Central Intelligence Agency (CIA) estimates that in 2000/2001 Pakistan's central government took in revenues of approximately \$8.9 billion and had expenditures of \$11.6 billion. Overall, the government registered a deficit of approximately \$2.7 billion. External debt totaled \$31.5 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	102.5%	9,122
Tax revenue	67.4%	5,999
Non-tax revenue	22.8%	2,032
Grants	12.3%	1,091

### 36 TAXATION

Pakistan lives predominantly by foreign trade, and its import tariffs and export tariffs are essentially revenue-producing. The national government does not levy income tax on agricultural income; only about 1% of the population pays income taxes. Rates are progressive, rising from 5% in the lowest category to 35% in the highest, with a net wealth tax of up to 2.5%. The basic corporate tax is 43%. This rate is higher for banks (58%) and lower for certain other public companies (33%). A value-added tax of 15% is levied on the value of goods. Shopkeepers went on strike in May of 2000 after hearing news that the sales tax would actually be enforced.

Established proportions of the various taxes levied by the federal government are distributed to the provincial governments. In addition, the provinces collect, for their exclusive use, taxes on land revenue, immovable property, vehicles, professions and services, and mineral rights, as well as excise taxes. Municipalities and other local governments also levy taxes.

### 37 CUSTOMS AND DUTIES

Pakistan's customs tariffs bring in the largest single share of national revenue. Most dutiable items are subject to ad valorem duties that range from 0% to 30%. There is, in many cases, a 15% sales tax on imported goods (food, raw materials, and capital goods are exempt from this tax). Alcohol is levied at a rate up to 65%, but can be as high as 225%. These rates were substantially lowered in the late 1990s from an average high of 30% in the early 1990s.

Tariffs are levied on major items of export, but these rates are subject to change as measures are taken to encourage or discourage the export of raw materials. Exports of certain foods, used copper and brass utensils, and some hides and skins are banned. Trade with Israel, South Africa, and Taiwan is prohibited.

### 38 FOREIGN INVESTMENT

Foreign aid and investment have played a critical role in Pakistan's economic development since the first years of independence. Since 1954, the government has tried to attract foreign investment to maintain economic development, provide specialized technical knowledge, and bring in much-needed foreign exchange. Incentives for private investment include guarantees for the repatriation of capital invested in approved industries, facilities for remittance of profits, and guarantees for equitable compensation in the event of nationalization of an industry. In addition, special tax concessions available to certain local industries are also available to foreign investors. Since the late 1980s, a series of regulatory reforms related to exchange controls, repatriation of profits, credit for foreign-owned firms, issuing of equity shares, foreign currency accounts, and transactions on the stock exchange have significantly reduced the restrictions on general foreign investor activity in the wider Pakistani economy.

Foreign direct investment (FDI) peaked in 1995/96 at \$1.1 billion, then dropped to \$548 million in 1996/97 in response to a foreign-exchange crisis. Investors were also deterred by Pakistan's listing as the second-most-corrupt nation in the world, after Nigeria. In the tension leading up to the nuclear bomb tests in May 1998, FDI fell to \$432.7 million of 1998/99, and then decreased further after the military coup in 1999, to \$420 million, in 1999/00. In 2000/01, FDI fell to an annual rate of less than \$275 million. After the 11 September 2001 terrorist attacks on the United States, Pakistan received a windfall in foreign assistance, raising foreign reserves from \$908 million in 1999/00 to \$4.3 billion in 2001/02. In March 2003, on the eve of the US-led invasion of Iraq, foreign reserves stood at more than \$10 billion. However, to date the overall investment climate in terms

of security has only been worsened by its role in the War on Terror.

The United States has been the largest source of FDI in Pakistan, with total investment of \$1.2 billion as of mid-2002. Over the three years 1998/99 to 2000/01, the US-based investment totaled \$250 million. The United Kingdom was the second-largest source, with \$241 million. The total for 1998/99 was \$327 million, including \$135 million from US sources, \$77 million from the United Kingdom, and \$51 million from Japan.

### 39 ECONOMIC DEVELOPMENT

After the founding of the Pakistani state in 1947, the government's economic policy concentrated attention on developing an economic infrastructure, achieving self-sufficiency in food, and developing export industries. A major new land reform program introduced in March 1972 had resulted by March 1975 in the confiscation (for eventual redistribution) of 45.3% of all privately cultivated farmland. By November 1973, the government had nationalized industries in 10 major categories of production. In a third major step, most of the commercial banks were nationalized on 1 January 1974, resulting in control of more than 90% of all banking business by the State Bank and the five newly created units.

By the late 1970s, however, Pakistan's martial law government, claiming the nationalization program had stifled production and discouraged private investment, moved to restore private sector confidence by fostering economic stability and by redressing the balance-of-payments deficit, which was causing large overseas debt obligations. A new five-year plan (1978–83), Pakistan's fifth, reserved 48% of industrial investment for the private sector and set goals for an annual economic growth rate of 7.2%, a 4.2% rise in per capita income, and increases of 6% in agricultural output and 10% in industrial production. The plan was allocated a budget of \$21 billion, of which 25% was to come from external sources. Indications were that the agricultural sector would meet its target, but that rising oil costs and the burden of providing for the Afghan refugees had impeded progress in other sectors.

The sixth five-year plan (1983–88), with a proposed outlay of R210 billion, envisioned further investments in water and power development, deregulation to increase private sector activity, and a new emphasis on provision of social services and infrastructural improvements for rural areas. Prime Minister Junejo announced a program for 1986–90, with an outlay of R70 billion, focusing on rural development, particularly in the areas of education, village electrification, potable water supply, roads, health care, and employment.

By the late 1980s, a number of structural factors resulted in increasingly critical fiscal and balance of payment deficits. With less than 30% of the budget devoted to infrastructural development and other needs in health and education, the prognosis for long-term social and economic development remained poor. In response, a medium-term structural reform program was developed under the government of Prime Minister Benazir Bhutto for implementation in 1989–91. Aimed at correcting fiscal and external imbalances, the program targeted a reform of the tax collection system, tighter government spending controls and monetary management, the privatization of state-owned industrial enterprises, banks and utilities, the phasing out of state monopolies in the transportation, insurance, telecommunications and energy sectors, and liberalization of investment and foreign exchange regulations. Implementation of the ambitious program proceeded under the government of Nawaz Sharif who assumed the prime minister's office in 1991. Results were somewhat uneven, with little effective improvements scored in the country's tax system or its fiscal and balance of payments deficits. While the rapid change of government in 1993 and ongoing political tensions dampened private investment,

officials assured that structural reform and privatization would continue.

Fiscal indecision and post-nuclear test economic sanctions dried up foreign investments while budget and trade deficits soared in 1999. The United States lifted some sanctions, clearing the way for the IMF to negotiate a bailout package of \$1.5 billion with Pakistan. Key demands included cuts in government budget deficits, further privatization, and improved tax collections. After suspension of payments under a previous arrangement, Pakistan interlard into a 10-month stand-by arrangement as a prerequisite to rescheduling. In December 2001, the government entered into a three-year program under the Poverty Reduction and Growth Facility (PRGF) in preparation for a second rescheduling of debt by Paris Club members, in this case for over \$12 billion.

Since the early 1950s through 1993, Pakistan is estimated to have received about \$37 billion in aid disbursements, including both long-term and medium-term loans and grants, making it one of the largest recipients in the developing world. For the Indus Valley project, Pakistan received funding of more than \$1.3 billion from the IBRD, IDA, ADB, United States, United Kingdom, and other countries. In addition to US aid, Pakistan has also received aid from Iran and the Arab states. New economic aid from the United States was halted in 1990, under the terms of a Congressional amendment requiring certification of Pakistan's status as a nuclear weapons-free country. These sanctions were alleviated in 1996 by the Brown Amendment, but the nuclear tests of 1998 caused further economic sanctions that were only partially lifted by 2000. Since the 11 September 2001 terrorist attacks on the United States, Pakistan has substantial international financial resources and concessions have been mobilized in exchange for the government's support of the War on Terror.

### 40 SOCIAL DEVELOPMENT

The current social security plan covers employees of firms with 10 or more workers. Family and self-employed labor is excluded, and there are separate systems for the armed forces, police, and other public employees. Social security coverage includes old age, disability, and survivor benefits, as well as sickness and maternity payments, workers' compensation, and unemployment benefits. This program is funded by 5% contributions from employers and any necessary subsidies from the government. The Worker's Compensation Act is supplemented by a Social Insurance Law and provides disability and worker's injury benefits to workers earning 3,000 rupees or less a month. The labor code requires employers with more than 20 employees to pay a severance gratuity in the amount of 30 days wages for each year of employment.

An Islamization program to promote social welfare in accordance with Islamic precepts was introduced in 1977 under martial law. Islamic welfare taxes, the zakat and ushr, were levied to redistribute wealth. The ushr tax on landowners took effect in 1983. Islamic beliefs are inculcated in the public schools and disseminated widely by the mass media. Laws against drinking alcoholic beverages, adultery, and bearing false witness have been strictly enforced.

The government's 1991 *Shari'ah* Bill, aimed at bringing Pakistani society more fully into conformity with Islamic tenets, included provisions to protect women's constitutional and property rights. Despite these provisions, women face serious social and legal discrimination. In a court of law, the testimony of women is not permitted in serious cases which may result in harsh corporal punishment (lashing, stoning, amputation). In cases dealing with financial matters, the testimony of two women must be introduced as evidence. The Hadood Ordinances, introduced in 1979, engrained Islamic precepts into the Penal Code. Women who have been raped may be subject to charges of adultery under these provisions. The incidence of rape is high in

Pakistan, and most women are afraid to file charges. Honor killings are on the rise, and domestic violence is prevalent. Between 70 and 90 percent of women are victims of family violence; women are killed by their husbands for trivial matters. Most women are unaware of their legal rights concerning inheritance, and in following with Muslim custom, widows give up their share of the joint assets. Women's rights were further weakened in 1992, when the Supreme Court decided that men may divorce their wives without any legal or written notification.

The use of child labor in Pakistan is widespread. Children not only work in the agricultural sector, but are also engaged in low-paying work in carpet weaving centers. Bonded child labor, in which the employer makes a payment to the child's parent and keeps the child to work off the long-term debt, has been made illegal but still may affect hundreds of thousands, if not millions, of children.

Human rights violations include arbitrary arrest, prolonged detention, and torture. Pakistan's human rights situation declined with the coup, led by General Musharraf, that ousted the Sharif government.

#### 41 HEALTH

Health facilities in Pakistan are inadequate, mainly due to a lack of resources and a high population growth rate. In 1993, 85% of the population had access to health care. Public health care expenditures in 1995 equaled 1% of GDP. As of 1999, total health care expenditure was estimated at 4% of GDP.

The country needs food, a proper water supply, and adequate sanitation. However, Pakistan is the first country to nearly completely eradicate dracunculiasis, having reported fewer than 100 cases in 1995. Pakistan is also working toward universal immunization, disease prevention, health promotion, and curative and rehabilitative services. In the 1990s there were several programs under way to improve health care coverage and control tuberculosis, leprosy, and cancer. One such program was a Child Survival/Primary Health Care program to reduce mortality, malnutrition, and deaths due to diarrheal diseases. As of 1999, 36% of children under five years old were considered malnourished. The goiter rate was high in 1996; 40 of every 100 school children were affected by goiter. In 1997, 90% of children up to one year of age were immunized against tuberculosis; 74% against diphtheria, pertussis, and tetanus; 74% against polio; and 74% against measles. In 1999, there were 177 reported cases of tuberculosis per 100,000 people. There were 80 cases of malaria per 100,000 in 1996.

In 1991–92, there were 60,250 physicians, 2,410 dentists, and 33,740 nurses, and 20,000 registered homeopathic medical practitioners. Many medical students have been sent abroad under an advanced medical training program. Special attention has been given to the training of nurses, and several training centers are in operation. However, medical personnel ratios, though much improved, remain inadequate. As of 1999, there were an estimated 0.6 physicians and 0.7 hospital beds per 1,000 people. In 1993, there were 302 health centers with 2,462 beds serving the rural population. In 1991, centers for the disabled included 11 physical therapy centers, 12 mental retardation centers, 11 centers for the visually impaired, and 12 centers for the hearing impaired.

Malaria, tuberculosis, intestinal diseases, venereal diseases, and skin diseases remain Pakistan's main public health problems. Common diseases and recent rates of occurrence or death were as follows: diarrheal diseases (157,660 deaths in 1995), leprosy (6,104 cases in 1994), malaria (92,634 cases in 1993), and tuberculosis (11,020 cases in 1993). Drug addiction, especially among university students, is an increasing concern, and government detoxification centers have helped many addicts recover.

In 2000, the infant mortality rate was 83 per 1,000 live births. Major causes of infant mortality are immunizable diseases, diarrhea, malnutrition, and poor environmental sanitation. In 2000, 88% of the population had access to safe drinking water and 61% had adequate sanitation. The estimated overall mortality rate was 9 per 1,000 people in 2002. The leading causes of death were diarrhea, pneumonia, tuberculosis, cardiovascular diseases, and cancer. Average life expectancy in 2000 was estimated at 63 years.

As of 1999, the number of people living with HIV/AIDS was estimated at 74,000 and deaths from AIDS that year were estimated at 6,500. HIV prevalence was 0.1 per 100 adults.

#### 42 HOUSING

The rapid increase in urbanization, coupled with the rising population, has added to the housing shortage in urban areas. About 25% of the people in large cities live in katchi abadis (shantytowns). The Public Works Department has built more than 8,000 units in Islāmābād, Lahore, Peshāwar, and Quetta at a cost of R1,588 million. Under the 1986–90 program, the residents in the katchi abadis were to be given proprietary rights. In 1987, the National Housing Authority was created to coordinate the upgrading of the existing katchi abadis and prevent the growth of new ones.

As of 1991, 171 abadis had been renovated at a cost of R454 million, and 522 more were under development. In 1998, there were 19,211,738 housing units nationwide with an average of 6.8 occupants per unit. About 54.97% of all units had two to four rooms; 38.11% had one room. About 81% of all dwellings were owner occupied.

#### 43 EDUCATION

The education system is poor, notwithstanding a massive educational reform announced in 1972 and aimed at providing free and universal education through the 10th year of formal schooling for both boys (by 1983) and girls (by 1987). In addition, the study of Islam was to be compulsory at all levels. For the year 2000, adult illiteracy rates were estimated at 56.7% (males, 42.4%; females, 72.2%). As an initial step, private educational institutions at all levels were nationalized. Additional steps included a reform of the curriculum away from general education and in favor of agricultural and technical subjects, equality of access to formal schooling for low-income groups and females, financial aid programs for poor students, and broad expansion and improvement of higher-level facilities. Curriculum bureaus were set up at federal and provincial levels, and the National Council of Education was established to formulate and evaluate educational development policy. As of 1999, public expenditure on education was estimated at 2.7% of GDP.

As of the mid-1990s, there were 15,532,000 pupils attending primary schools; 31% were female. In that same year, 5,022,416 students attended secondary schools. Girls attend separate schools at both primary and secondary levels. The pupil-teacher ratio at the primary level was 55 to 1 in 1999.

In the same period, 1,656,815 students were enrolled at institutions of higher learning. Arts and sciences colleges are affiliated with the universities of the Punjab (at Lahore, established 1882), Sind (at Hyderabad, 1947; at Karāchi, 1951), Peshawar (1950), Baluchistan (1970), and Multan (1975). An agricultural university was established in 1961 at Lyallpur (now Faisalabad). Two engineering and technological universities have been founded at Lahore (1961) and Islamabad (1966). Research institutions include the Institute of Islamic Studies at Lahore, the Iqbal Academy at Lahore, and the Pakistan Institute of International Affairs at Karachi. In 1995, there were a total of 29 universities, seven of which are privately operated. Urdu and English are the languages of instruction.

Many adult literacy centers, including women's literacy centers, have been established in recent years, the majority in Sind. In addition, the People's Open University was established at Islamabad (1974) to provide mass adult education via correspondence and the communications media.

#### 44 LIBRARIES AND MUSEUMS

The National Library of Pakistan in Islamabad holds 130,000 volumes. The largest university library in Pakistan is that of the Punjab University at Lahore, with a collection of about 398,000 volumes, including some 20,000 manuscripts. Sizable collections are also found at the University of Karāchi (105,000 volumes) and the University of Sindh (244,000 volumes). Other important libraries are the Punjab Public Library in Lahore (259,000 volumes), the Liaquat Memorial Library (147,000 volumes), the Central Secretariat Library (110,000 volumes), and the National Archives (35,000 volumes), all in Karāchi. The International Islamic University in Islāmābād holds 100,000 volumes.

The National Museum of Pakistan (Karāchi) contains prehistoric material from the Indus Valley civilization, Buddhist statues and carvings, and material from the Islamic centuries, including the renowned Mughal period. The Peshawar Museum has a splendid collection of Buddhist sculpture of the Gandhara style. The Lahore Museum has an outstanding collection of Greco-Buddhist sculpture. Fine mosques, shrines, and mausoleums of the Islamic centuries are scattered throughout the country. Among the best of the surviving gardens of the Mughal period are those at Lahore, including the Shalimar gardens. There is a museum dedicated to the work of Shakir Ali in Lahore and the Pakistan Army Museum is in Rawalpindi.

#### 45 MEDIA

Postal, telegraph, and telephone services are owned and operated by the state. In 1999, the number of mainline telephones in use totaled 2.8 million. In 1998, there were 158,000 cellular phones in use. Automatic telephone service has been installed in most cities and large towns. Radiotelephone and radiotelegraph services are available within the country and to foreign countries.

Pakistan's Indian Ocean INTELSAT communications stations began service in 1971 near Karāchi. Through Azad Kashmir Radio and the Pakistan Broadcasting Corporation, the government operates 18 shortwave radio stations. Karāchi is the broadcasting center, and there are important transmitters at Hyderabad, Quetta, Lahore, Rawalpindi, Peshawar, Multan, Bahawalpur, and Islāmābād. Government-run Pakistan-TV broadcasts at least 10 hours a day through 28 transmitters. In total, as of 1999, there were 26 AM, 3 FM, and 22 television stations in use. In 200 the country had 105 radios and 131 television sets for every 1,000 people. In 2000, there were 1.2 million Internet subscribers served by 30 service providers.

Daily newspapers—most of them with very small circulations—are published in Urdu, English, and a few other languages. English-language newspapers are read by less than 1% of the population but are very influential, especially *Dawn* (2002 estimated circulation, 80,000), published in Karāchi, and *Pakistan Times* (50,000), published in Lahore and Rawalpindi. Leading Urdu-language dailies (with 2002 circulations) are *Jang* (750,000) and *Hurriyat* (600,000), both in Karāchi, and *Jang Lahore* (1,200,000) and *Nawa-e-Waqt* (560,000), in Lahore.

While freedom of the press has always been provided for constitutionally, censorship was imposed on the press by the martial law governments. Between 1979 and 1982, local censors reviewed items prior to publication, and some books and periodicals were confiscated. Even after the lifting of censorship, the government continued to influence press coverage by controlling the availability of newsprint, which must be imported, and the placement of government advertising, which is a source of newspapers' revenue. There are no longer restrictions

on the importation of newsprint. There is a constitutional prohibition on the ridicule of Islam, the armed forces, or the judiciary.

#### 46 ORGANIZATIONS

Most major cities contain chambers of commerce and there are numerous employers' associations, such as the All-Pakistan Textile Mills Association, the Pakistan Carpet Manufacturers' and Exporters' Association, and the Pakistan Shipowners' Association.

The Islamic community is represented by several flourishing organizations, and other religious communities, such as the Zoroastrians, have their own groups. The Pakistan Historical Society, the Scientific and Cultural Society of Pakistan, and the Research Society of Pakistan all serve to promote interest and study in national and Islamic culture.

National youth organizations include the Baloch Student Organization, the Pakistan Progressive Student Alliance, the Adventure Foundation of Pakistan, the Pakistan Boy Scouts Association, and the YMCA. There are also a number of sports associations for all ages. National women's organizations include the All Pakistan Women's Association, the Pakistan Association for Women's Studies, the Pakistan Federation of University Women, the Women's Resource Center, and the Revolutionary Association of the Women of Afghanistan.

International organizations with national chapters include Amnesty International and the Red Crescent Society.

#### 47 TOURISM, TRAVEL, AND RECREATION

The government actively promotes tourism to boost its foreign-exchange earnings. Pakistan Tours, a government subsidiary, provides daily tours of Karachi, Rawalpindi, and other main cities. In Karāchi are the National Museum and the Mausoleum of the Quaid-e-Azam. In Lahore, the "city of gardens" and Pakistan's foremost cultural and educational center, remnants of the Mughal Empire are resplendently preserved. Islāmābād, the wholly planned capital, offers notable examples of architecture in the modern style. Popular recreations include mountain climbing in the Himalaya foothills, sailing, and deep-sea fishing off the Arabian Sea coast. Hockey and cricket are the leading sports, but golf is also popular, with courses in Lahore, Rawalpindi, Islāmābād and other cities.

Most visitors to Pakistan are required to have a visa and a valid passport. Tourists planning to stay more than 30 days must register with the government. Road permits are available for land crossings into India at Wagah (between Lahore and Amritsar in India). There are no health restrictions on visitors entering Pakistan except in regard to cholera and yellow fever immunizations for those who have been in infected areas.

In 2000, 556,805 tourists visited the country and receipts were valued at \$84 million. That year there were 35,524 hotel rooms and 53,286 bed-places.

The US State Department estimated the cost of staying in Islāmābād in 2001 at about \$212 per day. Estimated daily expenses in Karāchi were \$108 per day.

#### 48 FAMOUS PAKISTANIS

Several figures of monumental stature are associated with the creation and establishment of Pakistan. The poet and philosopher of a revitalized Islam, Mohammad Iqbal (1873–1938), who wrote in Urdu, Farsi, and English, first called for the establishment of a Muslim state on the subcontinent in a statement made in 1930. Mohammad Ali Jinnah (1876–1948), the Quaid-e-Azam, or "Great Leader," rallied the Muslims to this cause and became the first governor-general of the Commonwealth of Pakistan. His "right hand," Liaquat Ali Khan (1896–1951), was the first prime minister of the nation until his assassination. Chaudhury Mohammad Ali (1905–80), a former



prime minister, played a key role in the organization of the new government in 1947. Field Marshal Mohammad Ayub Khan (1908–74) served as commander-in-chief of the Pakistani army, as minister of defense in 1954–55, and as president of Pakistan from October 1958 to March 1969. Sir Mohammad Zafrulla Khan (1893–1985), a distinguished jurist, was several times minister of foreign affairs and later a member of the World Court at The Hague; in 1962, he served as president of the 17th UN General Assembly. Zulfikar Ali Bhutto (1928–79), who rose to prominence as founder and leader of the socialist-leaning Pakistan People's Party, was prime minister during 1973–77 and guided the country's political and economic transformation following the loss of East Pakistan. After Bhutto's execution in 1979, his elder daughter, Benazir (b.1953), became titular head of the Pakistan People's Party. Gen. Mohammad Zia-ul-Haq (1924–1987) came to power in 1977 and assumed the presidency in 1978. The Pakistani-born scientist Abdus Salam (1926–96) shared the 1979 Nobel Prize for Physics for his work in electromagnetism and the interaction of elementary particles.

In literature, the paramount position is still held by the great Urdu writers who lived before the establishment of Pakistan. Ghalib (1796–1869) and Iqbal are recognized as the two greatest Urdu poets. Contemporary writers who have won fame include the Urdu poet Faiz Ahmad Faiz (1911–84), imbued with a strongly socialist spirit, and the Urdu short story writer Saadat Hasan Manto (1912–55). Foremost among Pakistan's artists is Abdur Rahman Chughtai (1899–1975).

#### 49 DEPENDENCIES

Pakistan has no territories or colonies.

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# PALAU

Republic of Palau  
*Belau*

**CAPITAL:** Koror, Koror Island

**FLAG:** The flag, adopted 1 January 1981, is light blue, with a yellow disc set slightly off center toward the hoist.

**ANTHEM:** *Belau er Kid.*

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** New Year's Day, 1 January; Youth Day, 15 March; Senior Citizens Day, 5 May; Constitution Day, 9 July; Labor Day, 1st Monday in September; United Nations Day, 24 October; Thanksgiving Day, 4th Thursday in November; Christmas, 25 December.

**TIME:** 8 PM = noon GMT.

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

Palau (also known as *Belau*) is located in the western extremities of the Pacific Ocean. It consists of the Palau group of islands, in the western Caroline Islands, and four remote islands to the SW. Palau is isolated from larger land masses, with Papua New Guinea/Irian Jaya (Indonesia) 660 km (410 mi) to the S, the Philippines 885 km (550 mi) to the W, and Japan 3,042 km (1,890 mi) to the N. Yap Island in the Federated States of Micronesia lies 579 km (360 mi) to the NE. The country consists of more than 200 islands, with a total land area of 458 sq km (177 sq mi). Babelthup is the largest island, with an area of 397 sq km (153.2 sq mi); Koror Island, containing the capital, has an area of 18 sq km (7.1 sq mi). The islands of Peleliu and Angaur are about 50 km (30 mi) S of Koror. Sonsorol and Hatohebei, the two smallest island states, lie 560–640 km (350–400 mi) SW of Koror. Kayangel is a coral atoll 45 km (28 mi) N of Babelthup.

## <sup>2</sup>TOPOGRAPHY

The islands include four types of topographical formation: volcanic, high limestone, low platform, and coral atoll. The Palau barrier reef encircles the Palau group, except Angaur Island and the Kayangel atoll. The reef encloses a lagoon (1,267 sq km/489 sq mi) on the western side, containing a large number of small elevated limestone islets known as the Rock Islands. Babelthup and Koror, with peak elevations of 217 m (713 ft) and 628 m (2,061 ft), respectively, contain elevated limestone and volcanic formations. Arakabesan, Malakal, and several small northern islands are volcanic formations. Peleliu and Angaur are low-platform reef islands.

## <sup>3</sup>CLIMATE

Located near the equator, Palau's climate is maritime tropical, characterized by little seasonal and diurnal variation. The annual mean temperature is 28°C (82°F) in the coolest months. There is high precipitation throughout the year and a relatively high humidity of 82%. Heavy rainfall occurs from May to November. The short torrential nature of the rainfall produces up to 381 cm

(150 in) of precipitation annually. Typhoons and tropical storms occur from June through November.

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

Plant life, abundant throughout most of the islands, includes mangrove swamps, savanna land, and rain forest in upland areas. Food crops, such as taros, cassavas, sweet potatoes, coconuts, bananas, papayas, and citrus fruits, are mostly wild. Marine life is also abundant, with more than 1,500 species of tropical fish and 700 species of coral and anemones in the lagoons and reefs. Fauna includes the sea turtle, which is consumed as a delicacy, and the dugong, or sea cow, a marine mammal that is close to extinction.

## <sup>5</sup>ENVIRONMENT

While much of Palau's fragile natural environment remains free of environmental degradation, there are several areas of concern, including illegal fishing with the use of dynamite, inadequate facilities for disposal of solid waste in Koror, and extensive sand and coral dredging in the Palau lagoon. Like the other Pacific island nations, a major environmental problem is global warming and the related rising of sea level. Water coverage of low-lying areas is a threat to coastal vegetation, agriculture, and the purity of the nation's water supply. Palau also has a problem with inadequate water supply and limited agricultural areas to support the size of the population. The nation is also vulnerable to earthquakes, volcanic activity, and tropical storms. Sewage treatment is a problem, along with the handling of toxic waste from fertilizers and biocides.

## <sup>6</sup>POPULATION

The population of Palau in 2003 was estimated by the United Nations at 19,000, which placed it as number 190 in population among the 193 nations of the world. In that year approximately 5% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 114 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is

2.11%, with the projected population for the year 2015 at 26,000. The population density in 2002 was 44 per sq km (113 per sq mi). The government has curbed the high birth rate with family planning programs.

It was estimated by the Population Reference Bureau that 72% of the population lived in urban areas in 2001. The capital city, Koror, had a population of 14,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 2.7%.

## 7 MIGRATION

In 1999, persons not Palau-born accounted for nearly 30% of the total population. Most were born in the Philippines, China, and Bangladesh; there were also significant numbers from the Federated States of Micronesia, the United States, and Japan. Most were workers, whose numbers have been rapidly increasing; in 1999, foreigners made up 46% of the total work force. The vast majority of these foreigners were located in Koror. About one-fifth of all Palauans live abroad, many on Guam. In 1999, the net migration rate was 5.63 migrants per 1,000 population. The government views the migration levels as too high.

## 8 ETHNIC GROUPS

Palauans are a composite of Polynesian, Malayan, and Melanesian races. At last estimate, the largest non-Palauan ethnic groups included Filipinos (9.8%), other Micronesians (1.8%), Chinese (1.3%), and people of European descent (0.8%).

## 9 LANGUAGES

English is the official language in all of Palau's 16 states. However, Palauan, a Malayo-Polynesian language related to Indonesian, is the most commonly spoken language. It was the language spoken at home by 81% of the people five years of age or over in 1990, in contrast to 3% who spoke only English at home. Palauan is used, in addition to English, as an official language in 13 states. Sonsorolese is official in the state of Sonsoral; Anguar and Japanese in the state of Anguar; and Tobi in the state of Tobi.

## 10 RELIGIONS

Most Palauans are Christians. The Roman Catholic Church holds the largest number of members at about 65% of the population. Other significant denominations include the Evangelical Church, the Seventh-Day Adventists, The Church of Jesus Christ of Latter-Day Saints, and Jehovah's Witnesses. A significant percentage of the population observes the Modekngai religion, which is indigenous to Palau and combines both pagan and Christian beliefs and customs. There are a small number of Bangladeshi Muslims. Several foreign missionaries are active in the country.

## 11 TRANSPORTATION

The nation's roads at last estimate totaled 61 km (37.9 mi), of which 36 km (22 mi) were paved. Asphalt roads are found only in Koror, Airai, and Melekeok. A two-lane concrete bridge, constructed in 1976, links Koror with Airai. The Koror state government provides a public bus service. Palau's deepwater harbor at Malakal in Koror offers international port facilities. Heavy reliance is placed on small private watercraft throughout the country.

As of 2001, there were 3 airports, 1 with a paved runway. The international airport is located in Airai, 10 km (6 mi) from Koror. Three airlines provide international service: Air Micronesia/Continental, Air Nauru, and South Pacific Island Airways. There are 3 domestic airlines: Palau Paradise Air, Aero Belau, and Freedom Air.

## 12 HISTORY

As part of the Carolinian archipelago, the islands were sighted by European navigators as early as the 16th century. In 1686, the Spanish explorer Francisco Lezcano named Yap Island (now in the Federated States of Micronesia) "La Carolina" after King Charles II of Spain. The name was later generalized to include all the islands. Spanish sovereignty was established in 1885. In 1899, after Spain's defeat in the Spanish-American War of 1898, Palau, with the rest of the Carolines, was sold to Germany. At the outbreak of World War I in 1914, the islands were taken by the Japanese. As a member of the League of Nations, Japan was given a mandate over Palau in 1920, and Koror was developed as an administrative center of Japanese possessions in the north Pacific.

In 1947, following occupation by US forces in World War II, Palau became part of the UN Trust Territory of the Pacific Islands, which was administered by the United States. After the adoption of a constitution in 1980, Palau became a self-governing republic in 1981. Since 1982, the republic has been involved in negotiating a Compact of Free Association (CPA) with the United States. Negotiations were stalled because the 1980 constitution prohibits any placement of nuclear weapons, and the United States has wanted to use the islands as a military site. In June 1985, President Haruo Remeliik was assassinated; Vice-President Alfonso Oiterang served as acting president until August 1985, when he was defeated in an election by Lazarus E. Sali. President Sali committed suicide in August 1988. Kuniwo Nakamura was elected president in November 1992. On 1 October 1994 Palau became an independent nation in free association with the United States; under the CPA the United States is responsible for Palau's defense. In 1995, Palau entered into diplomatic talks with the United States, Japan, and Taiwan. In February 1999, Palau opened an embassy in Tokyo, Japan.

Under the 1994 CPA, Compact funds were allocated to finance the building of roads and infrastructure on Babelthup, across from the capital Koror, in order to attract people and economic activity. As of 1999, despite President Nakamura's support, Paramount Chief Ibedul Yutaka Gibbons of Koror, the most powerful traditional leader in Palau, opposed the Compact and its channeling of resources away from Koror and to Babelthup, arguing the Compact will erode Palau's autonomy and threaten traditional values.

In March 1999, a strong movement emerged in the Palau Congress to change the existing bicameral congress (House of Representatives and Senate) to a unicameral form of government to reduce the cost of government. As of early 2003, the congress remained bicameral.

In July 1999, Palau hosted the First Micronesian Traditional Leaders' Conference. In October 1999, Palau hosted the 30th South Pacific Forum with more than 300 foreign delegates, observers, and media members. The Forum considered issues on climate and sea level change, regional security and law enforcement, fisheries, and the United Nations Special Session on Small Island Developing States. Trade ministers of the South Pacific Forum endorsed the proposal for a Pacific Free Trade Area (FTA) that would create a regional market of six million people. The FTA allows goods produced in the fourteen island countries to be traded freely.

Tommy E. Remengesau, Jr. was elected president in general elections held 7 November 2000; Sandra Pierantozzi became the first woman vice-president.

## 13 GOVERNMENT

The government comprises three branches: the executive, the legislative, and the judicial. The executive branch is headed by the president, who is elected by popular vote for not more than two terms of four years each. The president is assisted by a cabinet of

ministers, one of whom is the vice-president and is also elected by popular vote. The president and vice-president run on separate tickets. A council of chiefs, based on Palau's clan system, advises the president on traditional and customary matters.

The legislative branch, known as the Olbiil Era Kelulau, or National Congress, is a bicameral form of legislature, comprising 9 senators and 16 delegates. The senators, elected for four-year terms, are apportioned throughout Palau on the basis of population and traditional regional political groupings. The delegates are elected from each of the 16 states and have the same four-year term as the senators.

In November 1992 Kuniwo Nakamura was elected Palau's new president, with 50.7% of the vote. Palau's Vice President, Tommy E. Remengesau, Jr. was also elected at that time. Both Nakamura and Remengesau were reelected president and vice president, respectively, in 1996. In the 2000 general elections, Remengesau was elected president, and Sandra Pierantozzi became Palau's first woman vice president.

## 14 POLITICAL PARTIES

No political parties currently exist in Palau.

## 15 LOCAL GOVERNMENT

Each of Palau's 16 states has a government headed by a governor, who is popularly elected, in most cases, for a four-year term. The members of the state legislatures are popularly elected for a four-year term, although in a few states, the term of office is limited to two years. The states are empowered to make their own laws, which must not be in conflict with the national constitution or any existing laws.

## 16 JUDICIAL SYSTEM

The Supreme Court is the highest court in the land. Other courts include the National Court and the lower court system, consisting of the Court of Common Pleas and the Land Court. Court appointments are for life. In October, 1990 US Interior Secretary Manuel Lujan issued an order granting the Interior Department in Washington the power to veto laws and reverse decisions by Palau's courts. This reassertion of legal authority by the United States was partially in response to the decade of unsuccessful negotiations concerning a plan for eventual self-government.

The constitution provides for an independent judiciary and the government respects this provision in practice. Palau has an independent prosecutor and an independent public defender system.

## 17 ARMED FORCES

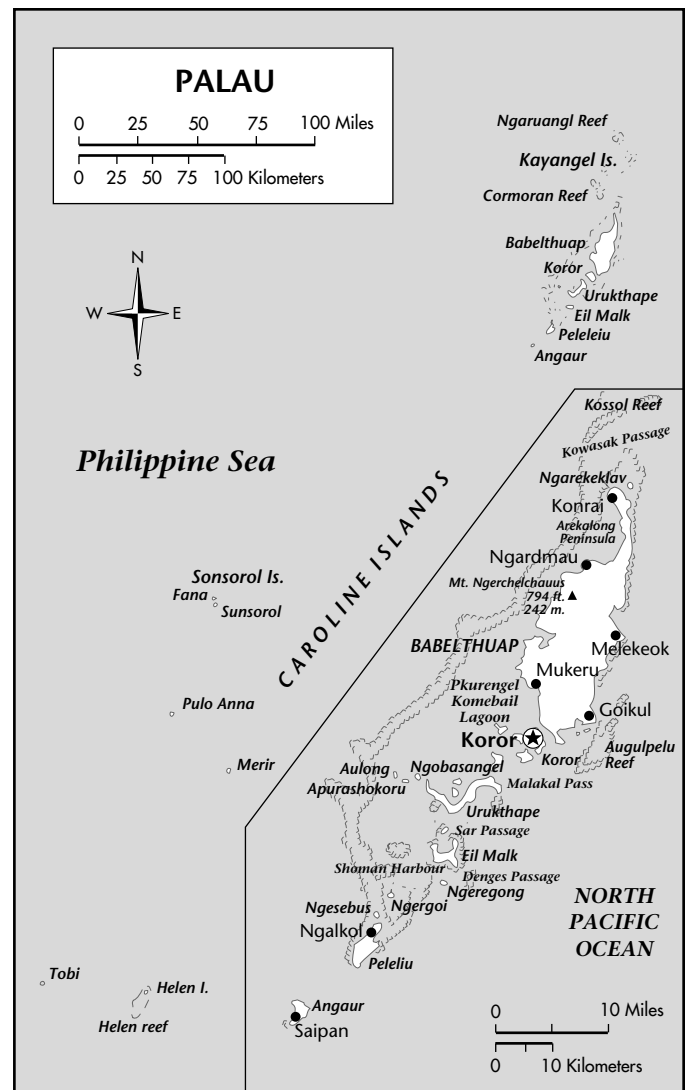
The United States is responsible for defense. Palau has no armed forces and does not have US armed forces within its borders except for a small contingent of US Navy Seabees who undertake civil action projects.

## 18 INTERNATIONAL COOPERATION

Palau is a member of the UN and participates in the World Bank, FAO, ICAO, IMF, UNCTAD, UNESCO and WHO. Palau is a full member of the SPC and of ESCAP.

## 19 ECONOMY

The economy has a narrow production base as a result of limited natural resources and few skilled personnel. The services sector consists largely of government administration and trade. Large gaps exist between government revenues and expenditures and between imports and exports. These gaps are financed largely by grant assistance from the United States. Unemployment is a major problem. Recently, expansion of air travel in the Pacific has fueled growth of the tourist sector. Tourist arrivals number 50,000 in 2000/01, down a from a peak of 66,441 in 1996/97. Long-run prospects of the tourist sector have improved with the



LOCATION: 131° to 135° E; 3° to 8° N.

development of Pacific air travel. Real GDP growth slid precipitously after booming post-independence rates of 24.3% in 1994/95 and 18.1% in 1995/96. In 1996/97 growth moderated to 5.5%, but in the wake of the Asian financial crisis, the economy contracted 5.4% in 1997/98. The economy remained flat in 1998/99, and 1999/00, the last years for which reliable data is available, with growth rates of 1.1% and 1%, respectively. The Compact Trust Fund balance, at \$70.8 billion at independence, reached \$161.8 billion by 1999/00, but had fallen to \$135 billion in 2000/01.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Palau's gross domestic product (GDP) was estimated at \$174 million. The per capita GDP was estimated at \$9,000. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2000 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. Foreign aid receipts amounted to about \$1,753 per capita and accounted for approximately 25% of the gross national income (GNI).

## 21 LABOR

The economically active population was 8,300 persons in 1999. The service sector employed 75.7% of the population, construction 15%, and mining 9.3%. In 2000, the unemployment rate was 2.3%.

There are no specific provisions granting the right to strike or organize unions, but the issue has never come up and there were no organized trade unions.

There is no minimum age for employment, but children do not typically work, except to help out in small scale family enterprises such as fishing or agriculture. Education is compulsory until age 14, and this is enforced by the government.

Palau's first minimum wage law, passed in 1998, set a rate of \$2.50 per hour. This was still in effect in 2002, and generally provides for a decent standard of living for a family. There are many foreign workers in Palau, and these workers often receive housing and food in addition to wages. There are no legally proscribed work hours, but most businesses are closed on Saturday or Sunday.

## 22 AGRICULTURE

Agricultural production belongs almost entirely to the nonmonetary, or subsistence, sector. Most households outside Koror are fully or partially engaged in subsistence agriculture. Staple subsistence crops include taros, cassavas, sweet potatoes, bananas, and papayas. Commercial produce is marketed mainly in Koror, consisting mostly of copra and coconut oil, vegetables, and a wide variety of tropical fruits.

## 23 ANIMAL HUSBANDRY

Livestock is limited to pigs, chickens, ducks, cattle, and goats. Pigs and chickens are raised by most households. Several small commercial egg-producing operations supply eggs to the Koror market. The Livestock Branch of the Division of Agriculture maintains breeding herds of pigs, cattle, and goats.

## 24 FISHING

Palau's marine resources are rich and diverse. Subsistence fishing within the reef is a major activity and dominates market production. The total catch was 2,000 tons in 2000. Deep-sea fishing for pelagic species resulted in a tuna catch of 51 tons in 2000. Seasonal trochus harvesting for shell button manufacture is an important source of income for most fishermen. Other marine resources include pearls, shrimp, ornamental fish, seaweed (agar agar), and mollusks. Palau is known for having some of the best diving, snorkeling, and sport fishing areas in the world.

## 25 FORESTRY

About 76% of Palau was forested in 2000. Forestry resources consist of coastal mangrove, coconut and pandanus palms, and rain forest species in upland areas. Palau is heavily dependent on imported forestry products, including furniture and lumber for house construction. The government's forestry station at Nekken on Babelthuap Island, of which more than half of the 1,257 ha (3,105 acres) consists of natural forest, provides primarily mahogany seedlings to farmers. Palau imported \$1.1 million in forest products during 2000.

## 26 MINING

Crystalline calcite from glistening limestone caves was first quarried as many as 1,500–2,000 years ago. The doughnut-shaped finished carved products would be transported by canoe some 400 km (250 mi) to Yap (now part of the Federated States of Micronesia), and used as currency.

The Koror state government engages in commercial production of dredged coral from the Palau lagoon, with a production capacity of 800 cu m per day. Other states are also involved in

coral dredging. A private company supplies aggregates for concrete from crushed basalt rock and beach sand.

## 27 ENERGY AND POWER

The economy is almost totally dependent on imported petroleum for energy. Electricity is supplied from the Malakal power plant, located in the state of Koror, with an installed capacity of approximately 8,000 kW. There are state-owned power plants with capacities ranging from 30 kW to 120 kW in Peleliu, Angur, Ngiwal, Ngeremlengui, Airai, Ngaraard, and Ngerchelong. Per capita consumption of electricity in 1995 was 11,704 kWh. Both production and consumption of electricity were 200 million kWh in 1996; of the power produced, 85% came from fossil fuels and 15% from hydropower.

## 28 INDUSTRY

Manufacturing plays a limited role in the economy. A copra-processing plant is located in Malakal. Concrete blocks are manufactured, utilizing imported cement, and there is a small-scale sawmill industry.

## 29 SCIENCE AND TECHNOLOGY

Palau's Micronesian Mariculture Demonstration Center, established in 1973, promotes the cultivation of commercially valuable and ecologically threatened marine species. The center attracts visiting marine scientists; its giant clam hatchery was the first and remains the largest of its kind.

## 30 DOMESTIC TRADE

Domestic trade is centered in Koror. Private-sector activities in tourism, restaurants and hotels, small workshops, banking, wholesale and retail outlets, transportation, and freight handling are located in Koror and, to a limited extent, the adjacent state of Airai. Most of the work force is employed in services related to tourism. The country relies heavily on imports for basic goods.

## 31 FOREIGN TRADE

Palau's economy sustains a large trade deficit. Food, beverages, and tobacco account for 19% of imports; manufactured goods, 20%; machinery and transportation equipment, 28%; mineral fuel and lubricants, 13%; and other imports, 20%. The country's low volume and limited range of exports include shellfish, tuna, copra, and garments. The United States, Japan, and Singapore are Palau's predominant trading partners.

## 32 BALANCE OF PAYMENTS

Standardized balance-of-payments accounts have not yet been prepared by the government. The chronic trade deficit is largely offset by US grant assistance.

The US Central Intelligence Agency (CIA) reports that in 1999 the purchasing power parity of Palau's exports was \$11 million while imports totaled \$126 million resulting in a trade deficit of \$115 million.

## 33 BANKING AND SECURITIES

In 1993, there were five commercial banks. Two are branches of foreign banks, the Bank of Hawaii and the Bank of Guam; the other, a local bank which started in 1985, is the Bank of Palau.

## 34 INSURANCE

Social security and pension fund contributions are made by the government on behalf of its employees.

## 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1997 Palau's central government took in revenues of approximately \$52.9 million and had expenditures of \$59.9 million, including capital expenditures of \$17.1 million. Overall, the government

registered a deficit of approximately \$7 million. Total external debt is estimated to exceed \$100 million.

### 36 TAXATION

Graduated income taxes are levied on wages and salaries. Business gross revenue tax is imposed at a flat rate minus employees' remuneration. There is also a profits tax on financial institutions.

### 37 CUSTOMS AND DUTIES

There are no import duties on raw materials if they are processed for sale outside Palau. There is also an import duty rebate offered by Palau as an investment incentive.

### 38 FOREIGN INVESTMENT

There is a Foreign Investment Board for processing applications from foreign investors; the Division of International Trade of the Bureau of Foreign Affairs is responsible for establishing contacts with foreign companies to promote Palau's trade interests.

### 39 ECONOMIC DEVELOPMENT

When Palau became independent in 1994 it entered into a Compact of Free Association with the United States. Under the Compact, Palau is to receive grants of totaling about \$600 million over a fifteen-year period to 2009. In the meantime, the government is to be engaged in developing ways to make the economy self-sufficient. A major part of the strategy was the building of a trust fund. The government's first five-year national development plan (1987-91) was the first phase of its fifteen-year development program. The plan focuses on the development of a private-sector production-based economy, efficient public-sector management, development of natural resources to earn foreign exchange, personnel development, regional development, and environmental preservation.

Long term prospects for the tourist sector have brightened because of the expansion of air travel in the Pacific and the rising prosperity of leading East Asian countries.

### 40 SOCIAL DEVELOPMENT

Social organization is based on the maternal kin group, or clan. Villages ideally consist of ten clans, with the leader of the highest ranking clan serving as village chief. Rapid socioeconomic change has given rise to a range of social problems for communities and social groups, particularly youth. Most social development activities in the areas of health and education are funded by US government programs.

A system of old age, disability and survivor's pensions was first introduced in 1967. This program covers all gainfully employed persons, and provides old age pensions after the age of 60. It is financed by 4% of employee earnings, matched by an equal contribution from employers.

In the traditional social structure, rank and inheritance are matrilineal. Women are accorded considerable respect within the clan system. However, weakening extended family ties and the rise of alcohol abuse are leading to an increase in domestic violence and abuse of women. In urban areas, women face minimal gender based discrimination in employment.

Foreigners residing in Palau are barred from owning land or obtaining citizenship. Some foreigners complain of discrimination in access to housing, education and employment.

Human rights are well respected in Palau, and nongovernmental organizations operate without government interference.

### 41 HEALTH

Hospital services are provided by the MacDonald Memorial Hospital in Koror, which has 60 beds. Medical services in Koror are also provided by the Belau Medical Clinic and the Seventh-

Day Adventist Eye Clinic. In 1998, there were 1.1 physicians, 1.4 nurses, and 0.1 dentists per 1,000 people.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 19.3 and 7.1 per 1,000 people. Life expectancy averaged an estimated 69.2 years and the fertility rate was 2.5 children per woman. The infant mortality rate was 16.2 per 1,000 births.

Immunization rates for children under one were as follows in 1995: diphtheria, pertussis and tetanus, 100%; polio, 100%; measles, 100%; and hepatitis B, 100%. No measles or polio cases were reported in 1995.

Only one case of AIDS was reported in 1996.

### 42 HOUSING

There were 2,501 occupied houses in 1986, of which 72% were located in Koror and the adjacent state of Airai. Most house walls are constructed from metal sheets, wood, or concrete blocks, and roofs are of corrugated material. About 80% of all houses have water and electricity. The majority of homeowners finance their house construction under the traditional "ocheraol" system, whereby clan members contribute to construction costs.

### 43 EDUCATION

Elementary education is free and compulsory for all Palauan children ages 6-14. In 1990, there were 369 students in private schools and 1,756 in public schools. The gross enrollment ratio in primary school for 1990 to 1996 (i.e. the number of pupils enrolled divided by the number of children of primary-school age) was 103, indicating some attendance by students not in the primary age group. The Palau High School in Koror, the only public high school, enrolls 64% of the total secondary-school enrollment. In 1990, 445 secondary students attended private schools, and 165 were in public schools. Post-secondary education is provided by the College of Micronesia's Micronesian Occupational College (MOC) in Koror. The adult literacy rate is 98%.

### 44 LIBRARIES AND MUSEUMS

There is a small public library in Koror, with a collection comprising about 17,000 books. The Belau National Museum, established in 1973, is also located in Koror.

### 45 MEDIA

The Palau National Communications Corp., established in 1982, provides domestic and international telephone connections, radio broadcasting, telex and telegram communications, and navigational and weather services. In 2002, there were 6,700 mainline telephones and 1,000 cellular phones in use. A radio station in Koror broadcasts to listeners in the outer islands. As of 2002, there were five radio stations, 1 AM and 4 FM. Television is limited to one channel in the Koror area, provided by a local private company. As of 1997, there were 478 radios and 85 television sets in use per 1,000 population. Internet access is available.

There are no daily papers. Two popular periodicals are *Palau Gazette* (monthly, 1995 circulation 3,000), and *Tia Belau* (weekly, 5,000).

The constitution provides for free speech and a free press, and the government respects these rights in practice.

### 46 ORGANIZATIONS

The clan system forms the basic unit of social organization. Youth, women's, and community development organizations provide economic self-help, community involvement and leadership training, skills training, and sports and recreation. The Lion's Club has programs in the country.

## 47 TOURISM, TRAVEL, AND RECREATION

Palau's scenic areas include the Rock Islands, a large number of small, mushroom-shaped islands that are unique in the region. The marine environment is rich in live coral formations and tropical fish, making the country a prime destination for snorkeling and scuba diving. Many tourists visit the World War II battlefields, war memorials, and shrines.

In 2000, Palau had 55,493 tourist arrivals. According to 2002 US government estimates, the daily cost of staying in Koror was \$218.

## 48 FAMOUS PALAUANS

Lazarus E. Salii (1937–1988) became the third president of Palau in September 1985.

## 49 DEPENDENCIES

Palau has no territories or colonies.

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# PAPUA NEW GUINEA

## Independent State of Papua New Guinea

**CAPITAL:** Port Moresby

**FLAG:** The flag is a rectangle, divided diagonally. The upper segment is scarlet with a yellow bird of paradise; the lower segment is black with five white stars representing the Southern Cross.

**ANTHEM:** *O, Arise All You Sons.*

**MONETARY UNIT:** The kina (K) of 100 toea is linked with the Australian dollar. There are coins of 1, 2, 5, 10, 20, and 50 toea and 1 kina, and notes of 2, 5, 10, 20, and 50 kina. K1=US\$0.2881 (or US\$1=K3.47) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; Queen's Birthday, 1st Monday in June; Remembrance Day, 23 July; Independence Day, 16 September; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** 10 PM=noon GMT.

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

Situated to the north of Australia, Papua New Guinea has a total land area of 462,840 sq km (178,704 sq mi), including the large islands of New Britain, New Ireland, and Bougainville and hundreds of smaller islands. Comparatively, the area occupied by PNG is slightly larger than the state of California. The country extends 2,082 km (1,294 mi) NNE–SSW and 1,156 km (718 mi) ESE–WNW. Mainland Papua New Guinea shares the island of New Guinea, the second-largest island in the world, with Irian Jaya, a province of Indonesia. To the N is the US Trust Territory of the Pacific Islands; to the E, the Solomon Islands; to the W, Irian Jaya; and about 160 km (100 mi) to the S, the nearest neighbor, Australia. Papua New Guinea has a total boundary length of 5,972 km (3,711 mi), of which 5,152 km (3,201 mi) is coastline.

PNG's capital city, Port Moresby, is located on the country's southern coast.

## <sup>2</sup>TOPOGRAPHY

Papua New Guinea is situated between the stable continental mass of Australia and the deep ocean basin of the Pacific. The largest section is the eastern half of the island of New Guinea, which is dominated by a massive central cordillera, or system of mountain ranges, extending from Indonesia's Irian Jaya to East Cape in Papua New Guinea at the termination of the Owen Stanley Range, and including the nation's highest peak, Mt. Wilhelm (4,509 m/14,793 ft). A second mountain chain fringes the north coast and runs parallel to the central cordillera. Active and recently active volcanoes are prominent features of New Guinea landscapes; there are no glaciers or snowfields. In the lowlands are many swamps and floodplains. Important rivers are the Sepik, flowing about 1,130 km (700 mi) to the north coast, and the Fly, which is navigable for 800 km (500 mi) in the southwest.

The smaller islands of Papua New Guinea are also areas of extreme topographic contrast and generally feature mountain ranges rising directly from the sea or from narrow coastal plains. Volcanic landforms dominate the northern part of New Britain

and Bougainville, and some of the smaller islands are extremely volcanic. The Bougainville–New Ireland area comprises Bougainville and Buka islands, the Gazelle Peninsula of New Britain, New Ireland, New Hanover, the St. Matthias group, and the Admiralty Islands.

## <sup>3</sup>CLIMATE

The climate of Papua New Guinea is chiefly influenced by altitude and by the monsoons. The northwest or wet monsoon prevails from December to March, and the southeast or dry trade winds from May to October. Annual rainfall varies widely with the monsoon pattern, ranging from as little as 127 cm (50 in) at Port Moresby to an average of 584 cm (230 in) in the western river basin. Most of the lowland and island areas have daily mean temperatures of about 27°C (81°F), while in the highlands temperatures may fall to 4°C (39°F) at night and rise to 32°C (90°F) in the daytime. Relative humidity is uniformly high in the lowlands at about 80% and averages between 65 and 80% in the highlands.

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

The flora of Papua New Guinea is rich and varied, with habitats ranging from tidal swamps at sea level to alpine conditions. In low-lying coastal areas, various species of mangroves form the main vegetation, together with the beautiful casuarina, sago, and palm. Most of the country is covered by tropical and savanna rain forest, in which valuable trees such as kwila and cedar are found. Orchids, lilies, ferns, and creepers abound in the rain forests. There are large stands of pine at elevations of 910 to 1,220 m (3,000–4,000 ft). At the highest altitudes, mosses, lichens, and other alpine flora prevail.

Papua New Guinea supports a great diversity of bird life. About 650 breeding species have been recognized. Papua New Guinea is the major center for a number of bird families, particularly the bird of paradise, bower bird, cassowary, kingfisher, and parrot. There are about 222 species of mammals, many nocturnal, of which rodent and marsupial orders



predominate. Butterflies of Papua New Guinea are world famous for their size and vivid coloring.

## 5 ENVIRONMENT

Papua New Guinea's environmental concern includes pollution, global warming, and the loss of the nation's forests. Coastal waters are polluted with sewage and residue from oil spills. The nation has 801 cu km of renewable water resources, of which 49% are used to support farming and 22% for industrial activity. Only 88% of the nation's city dwellers and 32% of the rural population have pure drinking water. Another significant source of pollution is open-pit mining. The country's cities produce an average of 0.1 million tons of solid waste per year. Global warming and the resulting rise in sea level are a threat to Papua New Guinea's coastal vegetation and water supply.

The Department of Physical Planning and Environment is responsible for integrating environmental planning and conserving natural resources. In 2001, 57 of the nation's mammal species and 31 of its bird species were threatened, as were 66 types of plants. Endangered species in Papua New Guinea include four species of turtle (green sea, hawksbill, olive ridley, and leatherback) and Queen Alexandra's birdwing butterfly.

## 6 POPULATION

The population of Papua New Guinea in 2003 was estimated by the United Nations at 5,711,000, which placed it as number 101 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 39% of the population under 15 years of age. There were 106 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–05 is 2.22%, with the projected population for the year 2015 at 7,169,000. The population density in 2002 was 11 per sq km (28 per sq mi). The major areas of population are in the highlands and eastern coastal areas of the island of New Guinea.

It was estimated by the Population Reference Bureau that 17% of the population lived in urban areas in 2001. The capital city, Port Moresby, had a population of 293,000 in that year. Other large cities include Lae, 80,665; Goroka, 17,855; Madang, 27,057; Wewak, 23,224; and Rabaul, on New Britain, 17,855. According to the United Nations, the urban population growth rate for 2000–2005 was 4.0%.

## 7 MIGRATION

The numbers of emigrants and immigrants have been roughly equal in recent years. In 1982–86, an average of 4,079 residents left the country each year, while 5,109 persons entered intending residency. Many more came as refugees from Irian Jaya. In 1993, some 3,750 such immigrants were living in a camp in Western Province, while another 6,000 or so had land or kinship ties with Papuan New Guineans and were living near the border. The emigration in earlier years of nonindigenous residents may have been influenced by constitutional provisions that restricted eligibility for naturalization to those with eight years' residency, but limited their tax and business rights to the same status as those of aliens. Many rural dwellers migrated to Port Moresby and other urban centers during the 1970s and 1980s. In 1999, the net migration rate was zero. The number of migrants in 2000 totaled 23,000, including 5,900 refugees. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Papua New Guinea has more than 1,000 different ethnic groups. Indigenous Papua New Guineans vary considerably in ethnic origins, physical appearance, and spoken languages. The indigenous people are Melanesians. They are usually classified by language group, with Papuans representing the descendants of the original Australoid migration and Austronesian speakers

descended from later migrants. The former are generally found in the highlands and the latter in coastal areas and on the islands other than New Guinea. Other groups with significant populations include Negritos, Micronesians, and Polynesians.

## 9 LANGUAGES

Under the Australian administration of the former Territory of Papua and New Guinea, English became the official language; however, it is only spoken by 1–2% of the population. More widely spoken, there are now two other official languages: Pidgin, a Melanesian lingua franca with roots primarily in English and German, and Hiri Motu, another lingua franca of Papuan derivation. In all, there are more than 700 indigenous languages, most of them spoken by a few hundred to a few thousand people.

## 10 RELIGIONS

Indigenous religions, varying widely in ritual and belief, remain important in tribal societies in Papua New Guinea, with about 34% of the population practicing some form of traditional belief either exclusively or in conjunction with another faith. However, most of the population is nominally Christian. Of these, about 22% are Roman Catholics; 16% are Lutheran; another 8% are Presbyterian, Methodist, or London Missionary Society; 5% are Anglican; 4% Evangelical Alliance; and 1% Seventh-Day Adventist. Other Protestant sects account for 10% of the population. Baha'ism is the only other nonindigenous faith that has gained a foothold. The Muslim community maintains a mosque in Port Moresby.

## 11 TRANSPORTATION

Transportation is a major problem in Papua New Guinea because of the difficult terrain. Major population centers are linked chiefly by air and sea, although road construction has increased to supplement these expensive means of transport. Of some 19,600 km (12,179 mi) of roads in 2002, only 686 km (426 mi) were paved. In 2000, there were 87,800 passenger vehicles and 5,049 commercial vehicles. Papua New Guinea has no railroads. However, there are 10,940 km (6,798 mi) of waterways.

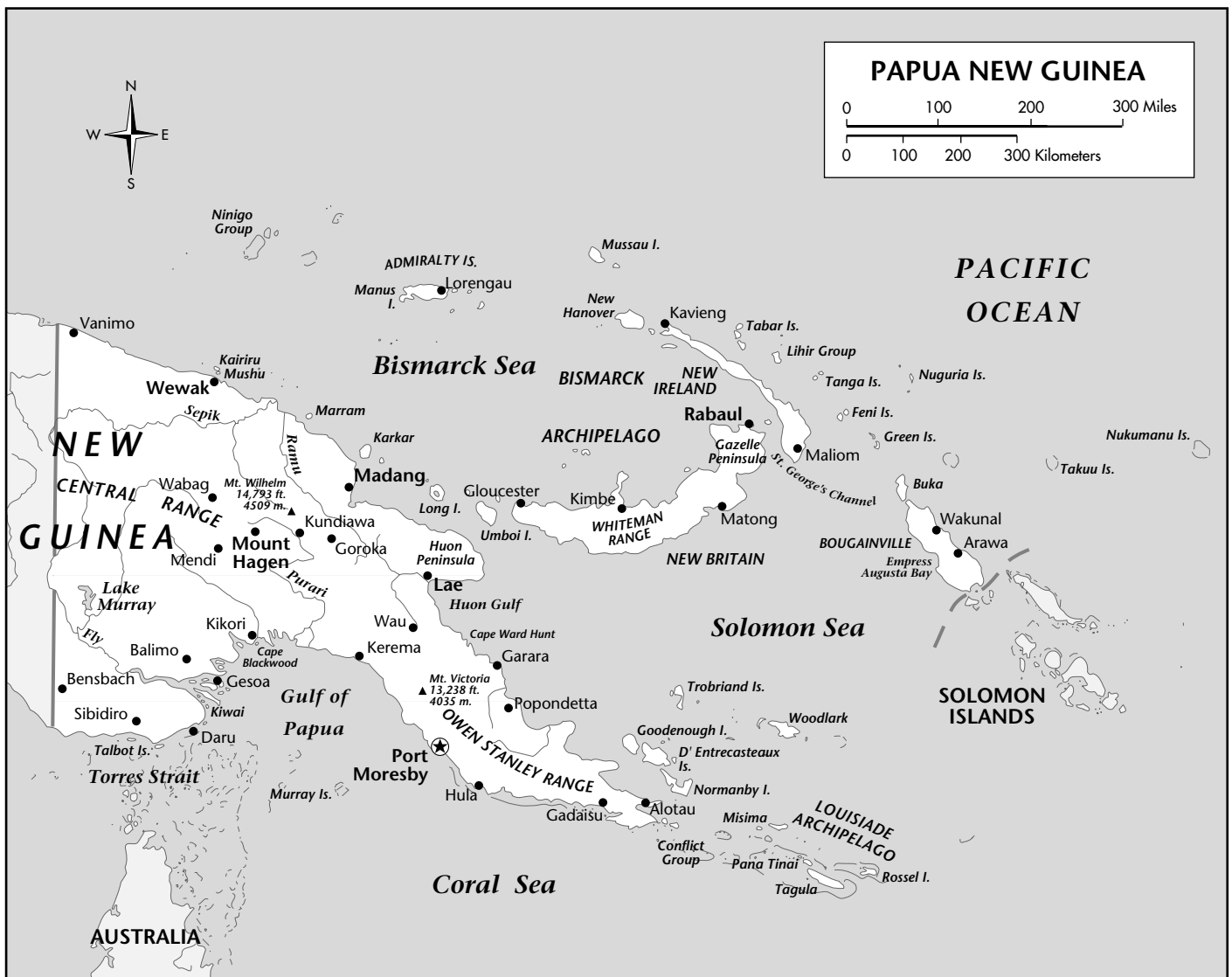
The government operates a fleet of coastal work boats, none more than 9 m (30 ft) long. The principal harbors are Madang, Port Moresby, Lae, and Rabaul. There are international shipping services by refrigerated container ships, other cargo vessels, and some passenger service to Australia, Southeast Asian and Pacific island countries, the US west coast, and Europe. The main shipping lines are government owned. In 2002, the merchant fleet was comprised of 22 ships with a total of 40,911 GRT.

Papua New Guinea had 490 airports in 2001, of which 21 were principal airports with paved runways. Papua New Guinea's national air carrier, Air Niugini, established in 1973, has undertaken most of the services previously provided by Australian lines. In 2001, 1,188,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Papua New Guinea appears to have been settled by 14,000 BC, with migrations first of hunters and later of agriculturists probably coming from the Asian mainland by way of Indonesia. Early communities had little contact with each other because of rough terrain and so maintained their autonomy, as well as their distinct languages and customs.

New Guinea was first sighted by Spanish and Portuguese sailors in the early 16th century and was known prophetically as *Isla del Oro* (Island of Gold). The western part of the island was claimed by Spain in 1545 and named New Guinea for a fancied resemblance of the people to those on the West African coast. ("Papua" is a Malay word for the typically frizzled quality of Melanesian hair.) Traders began to appear in the islands in the



LOCATION: 140°51' to 160°E; 0° to 12° S. BOUNDARY LENGTHS: Total coastline, 5,152 kilometers (3,202 miles); Indonesia, 820 kilometers (509 miles). TERRITORIAL SEA LIMIT: 12 miles.

1850s, and the Germans sought coconut oil available in northern New Guinea about that time. The Dutch and the British had earlier agreed on a division of their interests in the island, and from 1828, the Dutch began to colonize the western portion.

Although the British flag was hoisted on various parts of eastern New Guinea, the British government did not ratify annexation. Some Australian colonists were eager to see New Guinea become a British possession, for trade, labor, gold mining, and missionary reasons. However, it was not until 1884, after an abortive Australian annexation attempt and under fear of German ambitions in the area, that Britain established a protectorate over the southern coast of New Guinea and adjacent islands. The Germans followed by laying claim to three different parts of northern New Guinea. British and German spheres of influence were delineated by the Anglo-German Agreement of 1885. Germany took control of the northeastern portion of the island, as well as New Britain, New Ireland, and Bougainville, while Britain took possession of the southern portion and the adjacent islands.

British New Guinea passed to Australian control in 1902 and was renamed the Territory of Papua in 1906. German New

Guinea remained intact until the outbreak of war in 1914, when Australian forces seized it. Although the territories retained their separate identities and status, they were administered jointly by Australia from headquarters at Port Moresby. In 1921, the former German New Guinea was placed under a League of Nations mandate administered by Australia; in 1947, it became the Trust Territory of New Guinea, still administered by Australia but now subject to the surveillance of the UN Trusteeship Council.

Both territories were merged into the Territory of Papua and New Guinea in 1949. A Legislative Council, established in 1953, was replaced by the House of Assembly in 1964. Eight years later, the territory was renamed Papua New Guinea, and on 1 December 1973, it was granted self-government. Separatist movements in Papua in 1973 and secessionist activities on the island of Bougainville in 1975 flared briefly and then subsided, though debates over citizenship and land-reform provisions were vigorous until the passage of a constitution in 1975. Papua New Guinea achieved complete independence on 16 September 1975, with Michael Somare as prime minister of a coalition government.

Somare was voted out of office in 1980 but reelected in 1982; subsequently, he put through a constitutional change giving the central government increased authority over the provincial governments. Soon after, he suspended three provincial administrations for financial mismanagement. Somare also had to contend with social unrest, which culminated in June 1985 in a state of emergency after a prolonged wave of violent crime in Port Moresby. At the same time, his Pangu Pati was split by his deputy, Paias Wingti, who then founded a new party, the People's Democratic Movement (PDM). In November 1985, Somare was again voted out of office on a no confidence motion, and Wingti formed a cabinet. Though unrest continued, with serious riots in the Highlands in 1986, elections in mid-1987 returned Wingti to office at the head of a shaky five-party coalition.

Wingti's government was defeated in a no confidence vote in July 1988; a coalition government led by Rabbie Namaliu replaced the PDM government. A secessionist crisis on Bougainville dominated domestic politics during 1990–91. The Bougainville Revolutionary Army (BRA) declared the island of Bougainville to be independent from Papua New Guinea in May 1990, and in response government forces landed on the north of Bougainville in April 1991. Namaliu adjourned parliament early in 1991 to avoid a vote of no confidence over the Bougainville crisis. Paias Wingti, the leader of the People's Democratic Movement (PDM), was reelected prime minister in July 1992 as the leader of a new coalition government with the support of the People's Progress Party, and the League for National Advancement.

During 1993 the government continued to extend its control over Bougainville, partly because of popular revulsion against human rights violations by members of the BRA. In September 1994, rebel troops withdrew to the surrounding hills of the Bougainville copper mine allowing government forces to reclaim it. In 1995, the prime minister halted cease-fire talks.

In 1997, reformist premier Bill Skate, governor of Port Moresby, was elected by members of PNG's 109-seat parliament defeating Michael Somare who was also defeated for the post of parliamentary speaker by John Pundari who is a member of Pangu. Skate represented Julius Chan who lost his seat in the elections but who supported Skate's selection as premier. Chan had hired a group of mercenaries to put down the rebellion in Bougainville, angering Brigadier General Jerry Sinigirok. Chan dismissed Sinigirok; a decision that led to rioting by 2,000 Sinigirok loyalists. Ultimately Chan made the decision to step aside pending a judicial inquiry into the hiring of mercenaries. Chan had been elected prime minister on 30 August 1994.

Resolution to the Bougainville problem remained elusive until the government of Bill Skate reached a truce with the rebels in 1998. In April 1998, a permanent cease-fire agreement was signed and the reconstruction of war-torn Bougainville commenced. Up to 20,000 people had been killed during 9 years of conflict. In 1999, the rebel leaders and the PNG government signed an agreement known as the Matakana and Okataina Understanding which established an agreement to continue discussions about the island's political future. In August 2001, the Bougainville Peace Agreement was signed, which would provide for an autonomous Bougainville government and secure a plan of disarmament. A referendum on independence would be conducted in 10 to 15 years' time.

Throughout the 1990s, crime increased in PNG, especially in the capital of Port Moresby, leading to a dusk-to-dawn curfew and a ban on the sale of alcohol in 1997. In July 1999, Bill Skate resigned as prime minister as allegations regarding the misappropriation of development funds arose. On 14 July 1999, the national assembly chose Sir Mekere Morauta as prime minister in a 99 to 5 vote. Morauta sought to restore damaged relations with the People's Republic of China, which was angered by the Skate government's decision to accept normal relations

with Taiwan in return for economic assistance. The Morauta government engaged in a privatization program, and successfully negotiated with the IMF and World Bank for an aid package in 2000. On 14 March 2001, hundreds of soldiers led a mutiny against Morauta's government in protest of a proposed defense force restructuring plan. They seized an armory, and only relinquished their weapons a week later when Morauta promised a full amnesty for the soldiers involved in the revolt and a withdrawal of the controversial military restructuring plan.

Former Prime Minister Michael Somare became prime minister once again on 5 August 2002 when his National Alliance won the parliamentary elections in June that year. The elections were marked by violence and widespread irregularities, including vote-rigging. Somare was elected unopposed by a vote of 88 to 0, with members from Morauta's People's Democratic Movement and a section of the Pangu Party abstaining. Somare immediately set out to halt Morauta's privatization program, stating that the government would need more time to assess state assets. Somare headed a coalition of 13 parties and 20 independent members of parliament. He named a 28-member cabinet, including 19 new members of parliament.

### 13 GOVERNMENT

Papua New Guinea is an independent, parliamentary democracy in the Commonwealth of Nations, with a governor-general representing the British crown.

Under the 1975 constitution, legislative power is vested in the national parliament (formerly the house of assembly) of 109 members, including 20 representing provincial electorates and 89 from open electorates, serving a term of up to five years. Suffrage is universal and voting compulsory for adults at age 18. The government is formed by the party or coalition of parties, that has a majority in the national parliament, and executive power is undertaken by the national executive council, selected from the government parties and chaired by the prime minister.

The government has constitutional authority over the defense force, the Royal Papua New Guinea Constabulary, and intelligence organizations.

### 14 POLITICAL PARTIES

Political parties in PNG lack ideological conviction and rely almost exclusively on patronage politics, personalism, and regional bases. Several parties have emerged in Papua New Guinean politics. In the House of Assembly elected in 1973, the Pangu Pati, headed by Michael Somare, formed a coalition government with the People's Progress Party, and Somare became prime minister. Opposition parties at the time were the United Party, which maintains a strong following in the Highlands, and the Papua Besena Party, which stands for the secession of Papua from Papua New Guinea and has had fluctuating support even on its home ground.

Generally, party allegiances have been fluid, with regional and tribal politics impacting greatly on political events. The People's Democratic Movement, formed in 1985 by dissident members of the Pangu Pati, won 18 seats in the 1987 elections, while the Pangu Pati captured 25. Parties that participated in the 1997 elections were the Pangu Pati, People's National Congress, the People's Progress Party, and the People's Democratic Movement. In April 1998, Skate announced the formation of a new political alliance; the Papua New Guinea First Party led by his People's National Congress Party. More than 40 parties registered to participate in the June 2002 elections. In those elections, Michael Somare's National Alliance Party took 19 seats, and formed a 13-party coalition. Former Prime Minister Mekere Morauta's People's Democratic Movement took 13 seats.

## 15 LOCAL GOVERNMENT

Papua New Guinea is divided into 20 provinces, including the National Capital District. Each province has its own government, headed by a premier. In addition, there are more than 160 locally elected government councils. The local government system went through a process of reform in 1995, when the then-19 provincial governments were replaced by regional authorities. Bougainville presently exercises significant autonomy in its administrative affairs.

## 16 JUDICIAL SYSTEM

The legal system is based on English common law. The Supreme Court is the nation's highest judicial authority and final court of appeal. Other courts are the National Court; district courts, which deal with summary and non-indictable offenses; and local courts, established to deal with minor offenses, including matters regulated by local customs.

The Papua New Guinea government has undertaken a process of legal reform under which village courts have been established to conserve and reactivate traditional legal methods. Special tribunals deal with land titles and with cases involving minors. An Ombudsman Commission has been established to investigate and refer to the public prosecutor cases involving abuse of official authority.

The constitution declares the judiciary independent of executive, political, or military authority. It also provides a number of procedural due process protections including the right to legal counsel for criminal defendants. The chief justice of the supreme court is appointed by the governor-general upon nomination by the national executive council in consultation with the minister for justice. The Judicial and Legal Services Commission appoint other judges.

## 17 ARMED FORCES

Armed forces in 2002 had an estimated total of 3,100 personnel. The army of 2,500 consisted of two infantry battalions and one engineering battalion. Maritime forces (400) were equipped with four patrol and coastal craft and two amphibious craft. The air force (200) had no armed aircraft. Australia provides a 38-member training unit. Defense expenditures totaled \$42 million in 1998 or 1% of GDP. The Bougainville peace monitoring group includes some 55 troops from Australia, New Zealand, and Fiji.

## 18 INTERNATIONAL COOPERATION

Papua New Guinea became a member of the UN on 10 October 1975 and participates in ESCAP and all the UN nonregional specialized agencies. It also belongs to the Asian Development Bank, Commonwealth of Nations, G-77, South Pacific Forum, and South Pacific Commission. Papua New Guinea has signed the Lomé Convention, the Law of the Sea, and the Antarctic Treaty, and it has observer status at ASEAN. It also formally acceded to the WTO in June 1996.

## 19 ECONOMY

Economic activity is concentrated in two sectors, agriculture and mining. The subsistence sector, which occupies more than two-thirds of the working population, produces livestock, fruit, and vegetables for local consumption; agricultural products for export include copra, palm oil, coffee, cocoa, and tea. Rubber production has declined in recent years, and in the mid-1980s, coffee crops were threatened by the spread of coffee rust fungus through Western Highlands Province. New mining operations have compensated for the 1989 closure of the Bougainville mine, which had been a chief foreign exchange earner since the early 1970s. Currently, the main gold and silver mines are located at Ok Tedi in the Star Mountains, on Misima Island, and at Porgera. Oil and natural gas have been discovered in Southern

Highlands Province. Forestry and fishing hold increasing importance.

Economic growth, which averaged 3.7% in the late 1980s, rose to 9% in 1991, 11.8% in 1992, and 16.6% in 1993. The growth was driven by a mineral and petroleum boom centered in the Highlands region. Growth slowed to 3% in 1994, 2.9% in 1995, and 1.6% in 1996 and 1997 due to an anticipated drop in production from Papua New Guinea's aging mines and oil fields, and a 1997 drought that cut the coffee crop in half. To halt the economic decline, the government awarded a lease to private developers for the \$800 million Lihir gold project. In addition, construction projects involving airports, highways, disaster rehabilitation, development of the Gobe oil field, and a petroleum refinery are planned or being implemented. These projects, together with the onset of new production at the mine, generated a slightly improved GDP growth rate of 1.6% in 1998. The economy did not reach the expected 4.5% increase in part because of the Asian financial crisis, and recurring drought. Growth in 1999 was 3.6%, and in 2000 and 2001, the economy experienced small contractions of -0.8% and -3.3%, respectively. Inflation persisted in double digits, averaging just over 10%. In 2002, positive growth returned, but at an anemic 1.2%, while the annual inflation rate rose to 12%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Papua New Guinea's gross domestic product (GDP) was estimated at \$12.2 billion. The per capita GDP was estimated at \$2,400. The annual growth rate of GDP was estimated at -2.5%. The average inflation rate in 2001 was 10.3%. 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 30% of GDP, industry 37%, and services 33%. Foreign aid receipts amounted to about \$39 per capita and accounted for approximately 7% of the gross national income (GNI).

The World Bank reports that in 1999 per capita household consumption (in constant 1995 US dollars) was \$566. 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 12%. The richest 10% of the population accounted for approximately 40.5% of household consumption and the poorest 10% approximately 1.7%. It was estimated that about 37% of the population had incomes below the poverty line.

## 21 LABOR

The labor force numbered 2.3 million in 1999. Agriculture accounted for 85% of the workforce, particularly in small farming communities and isolated villages. Legislation covers working conditions and wages, and provides for collective bargaining. The Papua New Guinea Trade Union Congress is the main union federation. About one-half of the wage earners were unionized, and there were about 50 trade unions. Unions have the right to organize and bargain collectively but the government may cancel wage agreements if they are deemed to be against "public policy." The right to strike is protected, and it is prohibited to discriminate against union activity. However, there have been some reports of retaliation against union members. Approximately half of the 250,000 wage earners are union members.

The minimum working age is 18, although children may be employed in family-related work as young as 11. However, few children work in any capacity outside of subsistence farming. The minimum weekly wage in urban areas was \$9.87 as of 2001. The law provides for minimum occupational health and safety

standards; however, due to a shortage of inspectors, workplaces are not inspected regularly but only when a union or worker requests.

## 22 AGRICULTURE

Agriculture in Papua New Guinea is divided into a large subsistence sector and a smaller monetary sector for export. Agriculture's importance has steadily declined since 1985, when it made up 34% of GDP—in 2001, agriculture only contributed about 30% to GDP. About 85% of the population engages in subsistence agriculture. Subsistence crops include yams, taro, and other staple vegetables. Cash crops are increasing in rural areas, stimulated by government-financed development programs. Production by small farmers of coffee, copra, cocoa, tea, rubber, and oil palm is important for export, although production on plantations, which are usually foreign owned, is also significant. Such plantations are gradually being sold back to nationals. Principal crops and 1999 output (in tons) included sweet potatoes, 460,000; sugar cane, 400,000; copra, 140,000; coffee, 40,000; cocoa, 25,000; and rubber, 7,000. Papua New Guinea grows very little rice, the staple food for many of its inhabitants. A single Australian company imports over 150,000 tons per year to satisfy demand.

## 23 ANIMAL HUSBANDRY

Livestock in 2001 included an estimated 1,650,000 hogs, 6,500 sheep, and 3.7 million chickens. That same year there were 86,000 head of cattle, and production was being encouraged with the aim of achieving self-sufficiency in meat supplies. Local poultry and beef production is sufficient to almost meet domestic demand. Beef imports are subject to quota controls. The farming of crocodiles, whose hides are exported, has also been expanded.

## 24 FISHING

In many coastal parts of Papua New Guinea, fishing is of great economic importance. The government is involved in the development of fishing through supply of freezers and of transport and research facilities. The total catch in 2000 was 50,537 tons, 27% from inland fishing. Fish exports in 2000 were valued at \$36.4 million.

## 25 FORESTRY

Forests and woodlands covered about 67% of the land area in 2000. Exploitable forests account for roughly 40% of the total land area and include a great variety of hardwood and softwood species. The total roundwood production in 2000 was 8,597,000 cu m (303.5 million cu ft), as compared with about 7,058,000 cu m (249 million cu ft) in 1981. About 64% of all the timber cut in 2000 was used for fuel; production of sawn timber was estimated at 218,000 cu m (7.70 million cu ft). Plywood, hardwoods, and logs are regularly exported to Japan, New Zealand, Australia, and Europe.

## 26 MINING

The mining of gold, silver, and copper was a leading industry in Papua New Guinea—mining contributed 17.1% of GDP in 2000, when the country ranked 11th in gold mining and 13th in copper. Crude oil production and construction were other leading industries. Oil, gold, and copper ore ranked as the top three export commodities in 2002. Mining and petroleum supplied 70% of export earnings in 2000 and employed 2% of the workforce. The country also produced cement, common clays, sand and gravel, stone, natural gas, natural gas liquids, and crude petroleum.

Gold output in 2000 was 74,300 kg (metal content), up from 48,482 in 1997. In 1888, gold was discovered on Misima Island, marking the start of mining on Papua New Guinea. Prior to World War II, gold mining contributed 75% of export earnings.

This proportion declined greatly in subsequent years, reaching 40% in 1995. Reserves on Lihir Island have been estimated to contain 613 tons of recoverable gold, and deposits at Porgera, near Ok Tedi, in the Star Mountains, were considered to hold another 470 tons. Production of silver in 2000 totaled 73,200 kg, up from 59,294 in 1998.

Copper output (metal content) in 2000 was 200,900 tons. All copper came from the Ok Tedi mine, near the Indonesian border. In 1971/72, the Bougainville copper mine, one of the richest in the world, began to export copper ores and concentrates, which totaled 220,000 tons in 1988 and accounted for 44% of all exports in the years the mine operated. The mine closed in 1989 because of civil unrest caused by Bougainville Revolutionary Army militants. Nine years of civil unrest were temporarily halted by a cease-fire in 1997.

Mineral exploration was being expanded. Bauxite was known to exist on Manus Island, in the Admiralty Islands, and on New Ireland Island. Additionally, lead, manganese, molybdenum, zinc, limestone, and phosphate guano and rock deposits were present. Major deposits of chromite, cobalt, and nickel were believed to be recoverable at a site on the Ramu River, northeast of Ok Tedi. Mineral resources in Papua New Guinea were difficult and expensive to mine, and exploration and mining were hampered by rugged terrain, the nation's poor road infrastructure, and the high cost of developing infrastructure. Ethnic strife has become commonplace, and has had a negative impact on mining exploration and investment. Land disputes have become common as well, because land was communally held and there was no real system of land registration. To revive waning mineral exploration interest, the government announced a major overhaul of the tax system, which has been criticized for making investment in mining too expensive. The new tax regime was applicable only when a project was under way, and included guaranteed fiscal stability for the financing period of a project, the lowering of corporate tax rates, and the reduction of dividend holding tax. Companies were also able to deduct 25% of exploration expenditure against income, and were required to pay an additional profit tax. The mining levy would be phased out within a four-year period.

## 27 ENERGY AND POWER

As of 2001, Papua New Guinea had a total installed electrical capacity of 554 MW. Electricity generated in 2000 was 1,700 million kWh. Of this total, 54.6% came from fossil fuels and 45.4 29% came from hydroelectric facilities. Consumption of electricity in 2000 was 1.5 billion kWh.

Exploration for oil and gas has been conducted in the Gulf of Papua, on the Turama River, and off Bougainville. The Kutubu oil project (the nation's first oil production project) in the Southern Highlands began exporting in June 1992. In 1998, Kutubu produced 79,000 barrels of oil per day; proved reserves were estimated at 100 million tons (400 million barrels) at the beginning of 1996.

## 28 INDUSTRY

The industrial sector, constrained by the small domestic market and the population's low purchasing power, is largely undeveloped. Industries are concentrated in industrial metals, timber processing, machinery, food, drinks, and tobacco. Although industrial production, including construction and the provision of utilities, electricity and water, has increased to about 40% of GDP, the manufacturing component has been decreasing as a percent of GDP, from 9.5% in 1980 to 9% in 1990 to 8.2% in 2001, according to Asian Development Bank statistics. This relative decline is mainly due to double digit growth in the construction sector, a boom led by work on the Lihir gold mine and the Gobe petroleum project. The growth rate in construction peaked in 1997 and 1998, at 21.7% and 25.4%, respectively, but

the sector continues strong. In 2002, a number of construction projects involving housing, airports, highways, disaster rehabilitation, and a petroleum refinery were planned or under way.

Handicraft and cottage industries have expanded. A government-sponsored program assists Papua New Guineans in setting up businesses and purchases equity in existing firms. It has also encouraged small-scale import-substitution operations.

### 29 SCIENCE AND TECHNOLOGY

The Papua New Guinea Scientific Society, founded in 1949 at Boroko, promotes the sciences, exchanges scientific information, preserves scientific collections, and establishes museums. The University of Papua New Guinea, founded in 1965 at Waigani, and the Papua New Guinea University of Technology, founded in 1965 at Lae, provide scientific and technical training. The Lowlands Agricultural Experiment Station, founded in 1928, is in Kerevat. The Papua New Guinea Institute of Medical Research was founded in 1968. In 1987–97, science and engineering students accounted for 10% of college enrollments.

### 30 DOMESTIC TRADE

Trade in rural areas is mostly informal and cash is used in transactions. The local market, particularly in fruit and vegetables, is an important feature of economic and social life. Domestic trade in urban centers is primarily through modern supermarket chains and independent stores. The companies sponsoring supermarkets tend to be in both the importing and wholesale businesses and take responsibility for distribution of goods to outlying villages, which are generally somewhat isolated. Domestic trade is hampered by street gangs that terrorize local and foreign residents and merchants. There are a few Australian-based franchises within the country.

Most stores are open weekdays from 8 AM to 5 PM and until noon on Saturdays. Banks are open from 9 AM to 2 PM Monday to Thursday and from 9 AM to 5 PM on Fridays. Other businesses operate from 8 AM to 4:30 PM weekdays. Most businesses and government offices do not open on the weekends.

### 31 FOREIGN TRADE

In 2000, Papua New Guinea's exports totaled \$2.4 billion while imports totaled \$1 billion, down from \$1.1 billion in 1999. Consumer goods accounted for 9.3% of imports; machinery, 17.8%; industrial supplies, 18.3%; transportation equipment, 15.1%; food and beverages, 17.2%; and other imports, 0.3%. Of its natural resources, Papua New Guinea mainly exports crude petroleum (29%), copper ore (8.9%), and coffee (6.1%). Other exports include palm oil (6.0%) and rough wood (1.8%).

Through most of the period when Papua New Guinea was a territory administered by Australia, the two were also major trading partners. In the 1970s, Papua New Guinea's trade with other countries, especially Japan and Germany, increased. Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Australia	442	641	-199
Japan	291	97	194
Germany	166	23	143
United States	124	65	59
Korea	106	23	83
United Kingdom	81	11	70
China (inc. Hong Kong)	45	37	8
Singapore	26	120	-94
New Zealand	16	51	-35
Malaysia	15	31	-16

### 32 BALANCE OF PAYMENTS

Papua New Guinea relies heavily on imported goods and services, both for consumption and as inputs for its exports. The country registered deficits on current accounts during the early 1980s, after recording annual surpluses in the late 1970s. In the late 1980s, mine closings, civil unrest, and sustained deterioration in prices for the country's principal agricultural exports severely tested the economy and led to a program of structural adjustment supported by the World Bank and IMF. When the economy rebounded in the early 1990s, however, the government lost interest in the reforms and instituted expansionist fiscal policies that led to a decline in international reserves. To restore foreign exchange levels, the government devalued the currency in 1994. When that failed to solve the problem, the government let the kina float, resulting in a depreciation of about 28% by 1996. In 1995, Papua New Guinea reached an agreement with the World Bank and IMF on a series of economic reforms. The subsequent receipt of approximately \$200 million in loans in August 1995 substantially bolstered foreign reserves. Another agreement with the IMF in 2000 brought in an additional \$115 million in loans to the country.

The International Monetary Fund (IMF) reports that in 2001 Papua New Guinea had exports of goods totaling \$1.81 billion and imports totaling \$932 million. The services credit totaled \$285 million and debit \$662 million. The following table summarizes Papua New Guinea's balance of payments as reported by the IMF for 2001 in millions of US dollars. The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Papua New Guinea's exports was \$1.8 billion while imports totaled \$1.024 billion resulting in a trade surplus of \$776 million.

<b>Current Account</b>	<b>282</b>
Balance on goods	881
Balance on services	-377
Balance on income	-230
Current transfers	9
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-152</b>
Direct investment abroad	...
Direct investment in Papua New Guinea	63
Portfolio investment assets	-73
Portfolio investment liabilities	...
Other investment assets	-67
Other investment liabilities	-75
<b>Net Errors and Omissions</b>	<b>-2</b>
<b>Reserves and Related Items</b>	<b>-129</b>

### 33 BANKING AND SECURITIES

The Bank of Papua New Guinea, the country's central bank, was established in 1973, and the currency, the kina, was first issued in April 1975. The kina is backed by a standby arrangement with Australia, and the value of the kina is tied to the Australian dollar.

The Papua New Guinea Banking Corp. was set up in 1973 to take over the savings and trading business of the former Australian government-owned bank operating in Papua New Guinea. It competes with seven other private commercial banks, three of which are subsidiaries of Australian banks. Liquidity increased over the first six months of 1996, with total liquid assets held by the commercial banks standing at \$2.1 billion at the end of 1996. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$376.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$846.1 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 11.25%.

There is no securities exchange in Papua New Guinea.

### 34 INSURANCE

In 1997, there were at least 11 insurance companies operating in Papua New Guinea.

### 35 PUBLIC FINANCE

Papua New Guinea receives most of its bilateral aid from Australia, which donates about \$200 million a year in assistance. Foreign budgetary support was phased out in 2000; aid is now concentrated on project development. Other major sources of aid include Japan, the EU, China, Taiwan, the UN, the Asian Development Bank, the IMF, and the World Bank.

The US Central Intelligence Agency (CIA) estimates that in 2000 Papua New Guinea's central government took in revenues of approximately \$849 million and had expenditures of \$1.1 billion including capital expenditures of \$344 million. Overall, the government registered a deficit of approximately \$251 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.

REVENUE AND GRANTS	100.0%	849
Tax revenue	76.6%	650
Non-tax revenue	3.8%	32
Capital revenue	1.1%	9
Grants	18.5%	157
EXPENDITURES	100.0%	1,100
General public services	7.4%	82
Defense	3.3%	37
Public order and safety	7.0%	77
Education	21.8%	240
Health	6.2%	68
Social security	2.0%	23
Housing and community amenities	2.4%	26
Recreation, cultural, and religious affairs	0.6%	7
Economic affairs and services	19.9%	219
Other expenditures	15.4%	169
Interest payments	14.0%	153

### 36 TAXATION

Company incomes are taxed at a rate of 25% to 50%. Additional profits tax is calculated on the net profits of mining and petroleum companies at a rate of 35% to 50%. In addition, progressive tax rates are applied to individuals' wages and salaries, with taxes automatically withheld from paychecks. Tax rates range from 10% to 35%. Land and property taxes, estate and death taxes, gift taxes, stamp taxes, excise taxes, and sales taxes are also imposed.

### 37 CUSTOMS AND DUTIES

Papua New Guinea acceded to the World Trade Organization in 1996 and has liberalized its trade to conform to WTO standards, removing all non-tariff barriers to trade including quotas, bans, and license requirements. The government put a value-added tax (VAT) into effect in 1998 and intends to reduce all non-protective tariffs to zero using the VAT. Currently, there are import duty rates of 5%, 8%, and 11%. The protective tariff is 40% and there are higher rates applied to luxury items such as tobacco and liquor.

### 38 FOREIGN INVESTMENT

The bulk of foreign investment is in the mining and petroleum sector. Statistic on foreign equity holdings for 1995 show that Australia was the largest investor with K1,446 million, followed

by the United Kingdom with K160 million and the United States with K91 million. Overall, foreign equity holdings fell from 55% of GDP in 1990 to 33% in 1994, primarily due to the completion of major mining and petroleum projects. In 1995, developers RTZ and Niugini Mining were awarded a lease for the \$800 million Lihir gold project raising foreign equity holdings to 37% of GDP.

The Investment Promotion Authority (IPA), established in 1992, facilitates and certifies foreign investment. Corruption, civil unrest, and bureaucratic delays, however, frustrate the process. A number of free trade zones are in the early stages of development.

Foreign investment in Papua New Guinea took on an air of international intrigue when it was revealed that in early 1997 Prime Minister Julius Chan had entered into a \$46 million contract with Sandline Incorporated, a mercenary military organization, to retake Bougainville Island and in particular the copper mining complex there that had been occupied by separatists since 1989. Money behind the contract was traced to the British-Australia mining company, RTZ-CRA. The army prevented the use of the mercenaries. Chan lost his parliamentary seat in the 1997 elections, and a peace agreement was signed with the Bougainville Revolutionary Army (BRA) in 1998.

Foreign direct investment (FDI) was only \$87.6 million in 1997 and \$109.6 million in 1998. FDI nearly tripled in 1999, however, to \$296.5 million, before falling back to \$130.7 million in 2000. FDI in 2002 was \$178.7 million.

### 39 ECONOMIC DEVELOPMENT

The fundamental purposes of Papua New Guinea's economic strategy have been distilled into the nation's eight aims: a rapid increase in the proportion of the economy under the control of Papua New Guineans; a more equal distribution of economic benefits; decentralization of economic activity; an emphasis on small-scale artisan, service, and business activity; a more self-reliant economy; an increasing capacity for meeting government spending from locally raised revenue; a rapid increase in the equal and active participation of women in the economy; and governmental control and involvement in those sectors where control is necessary to achieve the desired kind of development.

In March 2000, Papua New Guinea's economic reform efforts came under the supervision of an IMF Structural Adjustment Program (SAP) financed by a stand-by credit line of SDR85.54 million (about \$120 million) that ran from 29 March 2000 to 29 September 2001. The IMF is critical of policies through which the government has intervened heavily in the economy—through tax incentives, licensing and approval requirements, trade restrictions, tariffs and price controls—to create an economy dominated by a few privately-owned, highly protected, non-competitive, import substitution enterprises. The SAP called for privatization of the few state owned enterprises, liberalization of trade and investment, reduction in public service employment and the decontrol of prices. In 2002, the government was implementing many of these reforms either as conditionals under the IMF stand-by agreement and/or as requirements for participation in APEC and accession to the WTO.

### 40 SOCIAL DEVELOPMENT

A social security system, called the National Provident Fund, was formed in 1981 and covers persons employed by firms with 25 or more workers, providing old age, disability, and survivor benefits. Businesses involving cocoa, copra, palm oil, rubber, and tea are exempt, and there is a separate program for public employees. The system is financed by 5% contribution of earnings from employees, and 7% of payroll from employers. Retirement is set at age 55, or at any age with 15 years of contributions. Benefits are provided as a lump sum, and include total contributions plus interest. Workers' compensation is provided by employers

through direct provision of benefits or insurance premiums. Medical services, where available, are provided free or at a nominal cost. Rural communities traditionally assume communal obligations to those in need.

Despite a constitution guaranteeing them equal rights, women remain second-class citizens due to traditional patterns of discrimination. Village courts tend to enforce these patterns, and intertribal warfare often involves attacks on women. Polygyny is common, and the tradition of paying a bride-price persists. Violence against women is widespread, and few victims press charges. Much of the violence is committed by women against another of their husband's wives. The government is working to improve the status of women, and has instituted an Office of Women's Affairs.

In 1999, human rights violations included excessive use of police force, poor prison conditions, and limits on freedom of assembly.

#### 41 HEALTH

Government policy is to distribute health services widely and to provide comprehensive medical care, both preventive and curative. In the years 1985–1995, 96% of the population had access to health care services. Medical personnel in 1990 included 301 doctors and 2,447 nurses. As of 1999, there were an estimated 0.1 physicians and 4 hospital beds per 1,000 people. In 2000, 42% of the population had access to safe drinking water and 82% had adequate sanitation. As of 1999, total health care expenditure was estimated at 3.2% of GDP.

The main health problems are malaria, tuberculosis, leprosy, and venereal disease. Significant malnutrition occurs in some areas and pneumonia and related respiratory infections are major risks. In 1999, there were about 250 reported cases of tuberculosis per 100,000 inhabitants. There were 797 malaria, 5,335 tuberculosis, and 6,821 measles cases in 1994. The increased incidence of malaria has been linked to importation from neighboring islands. Immunization rates for children up to one year old were fairly high in 1994: tuberculosis, 91%; diphtheria, pertussis, and tetanus, 66%; polio, 66%; and measles, 39%. In 1999, the rates for DPT and measles were, respectively, 56% and 58%. While malnutrition remains a major problem, dramatic changes have occurred in some groups with exposure to more Westernized diets. Diabetes in the highland populations is low but has been documented to be as high as 16% in major cities of Papua New Guinea.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 31.6 and 7.8 per 1,000 people. As of 2000, 26% of married women (ages 15 to 49) were using contraception. The infant mortality rate decreased from 110 deaths per 1,000 live births in 1974 to 56 in 2000. In 1999, 16% of all births were low birth weight babies. The maternal mortality rate was 370 per 100,000 live births in 1998. Life expectancy was still only 59 years in 2000.

In 1996, Papua New Guinea had the highest per capita HIV prevalence in the North and South Pacific regions. As of 1999, the number of people living with HIV/AIDS was estimated at 5,400 and deaths from AIDS that year were estimated at 450. HIV prevalence was 0.2 per 100 adults.

Coronary heart disease, previously rare or nonexistent, has become more prevalent in past years. Total cholesterol values are higher in urban coastal and periurban subjects than in rural locations.

#### 42 HOUSING

Traditional housing in rural areas appears to be adequate, but in urban areas there are acute shortages because of migration. In most urban areas, squatter settlements have been established. New housing has generally fallen far short of meeting the demand, especially for medium- and low-cost units. As of 1988,

the housing stock totaled 555,000 and the number of people per dwelling averaged 5.8.

#### 43 EDUCATION

Education in Papua New Guinea is not compulsory, and in the mid-1980s only one-third of the population was literate. The present government aims at upgrading and improving the system and quality of education. Children attend state-run community schools for primary education and provincial and national high schools for secondary education. After grade six, they are tested and screened for continuing their studies in provincial high school. After grade 10, students have to qualify through an examination to enter one of the four national senior high schools, where they attend grades 11 and 12. After grade 10, students may enter one of the many technical or vocational schools that train them in various careers and skills, depending on their interests.

The adult illiteracy rate for the year 2000 was estimated at 24.0%, (males, 16.3%; females, 32.3%). In 1995, 2,790 primary schools had 13,457 teachers and a total enrollment of 516,797 students. Also in 1995, secondary schools had approximately 3,400 teachers and enrolled 78,759 students. The pupil-teacher ratio at the primary level was estimated at 36 to 1 in 1999. In the same year, 84% of primary-school-age children were enrolled in school, while 21% of those eligible attended secondary school.

In addition to the national government system, there is an international school system that ends at high school. Fees are considerably higher than the government run schools, and the curriculum is based on the British system. There are also privately run preschools and primary schools.

The University of Papua New Guinea in Port Moresby offers degrees in law, science, medicine and arts. The University of Technology in Lae offers degrees in technical subjects such as engineering, business, architecture, and forestry. The Pacific Adventist College, a privately run university outside Port Moresby, offers courses in education, business, accounting, secretarial studies, and theology. In 1995, there were a total of 13,663 students enrolled at institutions of higher education. Approximately 32% of these students were female.

#### 44 LIBRARIES AND MUSEUMS

The largest libraries are at the University of Papua New Guinea (440,000 volumes) and at the Papua New Guinea University of Technology (130,000). Local libraries are well established in urban centers. The National Library Service in Boroko has 85,000 volumes. The Papua New Guinea Institute of Public Administration in Boroko holds 90,000 volumes. The Papua New Guinea National Museum and Art Gallery, in Boroko, has a good collection of art and general ethnography. The museum is implementing the National Cultural Property Act to protect the country's cultural heritage and to further establish appropriate museums. In 1981 the country opened the Madang Museum, Culture and Tourism Center in Yomba. The J. K. MacCarthy Museum, an ethnological collection, is located in Goroka.

#### 45 MEDIA

Telephone, telegraph, and telex services are available; there were 61,152 mainline telephones in use in 1999. In 1996, there were 3,053 cellular phones in use. A coastal radio service provides communications between land-based stations and ships at sea.

The National Broadcasting Commission operates three radio networks and one national television station. It broadcasts in English, Pidgin, Hiri Motu, and a dozen other vernaculars. As of 1999 there were 31 AM and 2 FM radio stations and 3 television stations. As of 2002, there were four additional television stations in the planning stages. In 2000 there were 86 radios and 17 television sets per 1,000 population. In 2001, three Internet service providers were serving 135,000 subscribers.



*The Papua New Guinea Post-Courier* is published daily in English with a 2002 circulation of about 30,480. *The National*, another daily, is published on Boroko and had a 2002 circulation of 20,000. Other local news sheets are published, many in Pidgin. *Niugini Nius*, also in Boroko, is published Tuesday–Friday (circulation 31,000) and also has a weekend edition (16,000).

The constitution provides for free speech and free media, and the government is said to generally respect these rights in practice.

#### 46 ORGANIZATIONS

Chambers of commerce and industry, service clubs, farmers' associations, professional organizations and various trade unions form the nucleus of formal organizations in Papua New Guinea. National youth organizations include the Papua New Guinea National Union of Students, YMCA, and the Scout Association of Papua New Guinea. Women's organizations include the East Sepik Women and Children's Health Project and the Simbu Women's Resource Center. The Red Cross is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Water sports, golf, tennis, and rock climbing are popular pastimes. Tourists must have a valid passport, obtain an entry visa to Papua New Guinea, and hold an onward ticket; malaria suppressants are advisable, although Port Moresby is considered a low-risk area.

In 2000, 58,448 tourists visited Papua New Guinea, about half from Australia. There were 2,640 rooms in hotels and other establishments in 1995, with 5,280 bed-places and an occupancy rate of 54%. Tourism receipts totaled \$76 million in 1999.

According to 2003 US government estimates, the cost of staying in Port Moresby was \$123 per day. UN reports of 1999, indicate that outside the capital, travel was less expensive. Daily expenses were estimated at \$83 in Madang, \$63 in Vanimo, and \$102 in Minj. In smaller towns where commercial hotels exist, estimated daily expenses dropped to \$35 per day.

#### 48 FAMOUS PAPUA NEW GUINEANS

The best known Papua New Guineans are Michael Thomas Somare (b.1936), chief minister during colonial rule and the nation's first prime minister; Sir Albert Maori Kiki (1931–93), author of *Kiki: Ten Thousands Years in a Lifetime*; and Vincent Eri, author of *The Crocodile*.

#### 49 DEPENDENCIES

Papua New Guinea has no territories or colonies.

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# PHILIPPINES

Republic of the Philippines

*Republika ng Pilipinas*

**CAPITAL:** Manila

**FLAG:** The national flag consists of a white equilateral triangle at the hoist, with a blue stripe extending from its upper side and a red stripe extending from its lower side. Inside each angle of the triangle is a yellow five-pointed star, and in its center is a yellow sun with eight rays.

**ANTHEM:** *Bayang Magiliw (Nation Beloved)*.

**MONETARY UNIT:** The peso (P) is divided into 100 centavos. There are coins of 1, 5, 10, 25, and 50 centavos and 1 and 2 pesos, and notes of 5, 10, 20, 50, 100, and 500 pesos. P1 = \$0.0191 (or \$1 = P52.30; as of May 2003).

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local measures also are used.

**HOLIDAYS:** New Year's Day, 1 January; Freedom Day, 25 February; Labor Day, 1 May; Heroes' Day, 6 May; Independence Day (from Spain), 12 June; Thanksgiving, 21 September; All Saints' Day, 1 November; Bonifacio Day, 30 November; Christmas, 25 December; Rizal Day, 30 December; Last Day of the Year, 31 December. Movable religious holidays include Holy Thursday and Good Friday.

**TIME:** 8 PM = noon GMT.

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

The Republic of the Philippines consists of an archipelago of 7,107 islands situated SE of mainland Asia and separated from it by the South China Sea. The total land area is approximately 300,000 sq km (115,831 sq mi), 67% of which is contained within the two largest islands: Luzon, 108,171 sq km (41,765 sq mi) and Mindanao, 99,078 sq km (38,925 sq mi). Other large islands include Samar, Negros, Palawan, Panay, Mindoro, Leyte, Cebu, Bohol, and Masbate. Comparatively, the area occupied by the Philippines is slightly larger than the state of Arizona. The Philippines' length is 1,851 km (1,150 mi) SSE-NNW, and its width is 1,062 km (660 mi) ENE-WSW.

The Philippines is separated from Taiwan on the N by the Bashi Channel (forming part of the Luzon Strait) and from Sabah, Malaysia (northern Borneo), on the SW by the Balabac Strait (off Palawan) and the Sibutu Passage (off the Sulu Archipelago). Bordering seas include the Philippine Sea and the Pacific Ocean on the E, the Celebes Sea on the S, the Sulu Sea on the SW, and the South China Sea on the W. The Philippines has a total coastline of 36,289 km (22,549 mi).

The Philippines claims the Spratly Islands, in the South China Sea, as do China, Malaysia, Taiwan, and Vietnam. About 1,000 Philippine marines were stationed in the Spratlys in 1983. The Philippines also has a claim on Sabah, dating back to 1670.

The Philippines' capital city, Manila, is located on the island of Luzon.

## <sup>2</sup>TOPOGRAPHY

The topography is extremely varied, with volcanic mountain masses forming the cores of most of the larger islands. The range culminates in Mt. Pulog (elevation 2,928 m/9,606 ft) in northern Luzon and in Mt. Apo, the highest point in the Philippines (elevation 2,954 m/9,692 ft), in Mindanao. A number of volcanoes are active, and the islands have been subject to destructive earthquakes. Lowlands are generally narrow coastal strips except for larger plains in Luzon (Cagayan Valley and Central Plains), Mindanao (Cotabato and Davao-Agusan

valleys), and others in Negros and Panay. Rivers are short and generally seasonal in flow. Important ones are the Cagayan, Agno, Abra, Bicol, and Pampanga in Luzon and the Cotabato and Agusan in Mindanao. Flooding is a frequent hazard. The shores of many of the islands are embayed (Manila Bay is one of the finest harbors in East Asia); however, several islands lack adequate harbors and require offshore lightering for sea transport. The only two inland water bodies of significant size are Laguna de Bay in Luzon and Lake Sultan Alonto in Mindanao.

## <sup>3</sup>CLIMATE

The Philippine Islands, in general, have a maritime tropical climate and, except in the higher mountains, temperatures remain warm, the annual average ranging from about 23° to 32°C (73 to 90°F) throughout the archipelago. Daily average temperatures in Manila range from a minimum of 21°C (70°F) to a maximum of 30°C (86°F) in January and from 24°C (75°F) to 33°C (91°F) in June. Annual normal relative humidity averages 80%. Rainfall and seasonality differ markedly throughout the islands, owing to varying exposures to the two major wind belts, northeast trades or monsoon (winter) and southwest monsoon (summer). Generally, the east coasts receive heavy winter rainfall and the west coasts heavy summer rainfall. Intermediate and southern locales receive lesser amounts more equally distributed. The average annual rainfall in the Philippines ranges from 96 to 406 cm (38 to 160 in).

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

The Philippines supports a rich and varied flora with close botanical connections to Indonesia and mainland Southeast Asia. Forests cover almost one-half of the land area and are typically tropical, with the dominant family, Dipterocarpaceae, representing 75% of the stands. The forest also has vines, epiphytes, and climbers. Open grasslands, ranging up to 2.4 m (8 ft) in height, occupy one-fourth of the land area; they are man-made, the aftermath of the slash-and-burn agricultural system, and most contain tropical savanna grasses that are nonnutritious and difficult to eradicate. The diverse flora includes 8,000 species

of flowering plants, 1,000 kinds of ferns, and 800 species of orchids.

Common mammals include the wild hog, deer, wild carabao, monkey, civet cat, and various rodents. There are about 196 breeding species of birds, among the more numerous being the megapodes (turkey-like wildfowl), button quail, jungle fowl, peacock pheasant, dove, pigeon, parrot, and hornbill. Reptilian life is represented by 190 species; there are crocodiles and the larger snakes include the python and several varieties of cobra.

## 5 ENVIRONMENT

Primary responsibility for environmental protection rests with the National Pollution Control Commission (NPCC), under whose jurisdiction the National Environmental Protection Council (NEPC) serves to develop national environmental policies and the Environmental Center of the Philippines implements such policies at the regional and local levels. Uncontrolled deforestation in watershed areas, with consequent soil erosion and silting of dams and rivers, constitutes a major environmental problem, together with rising levels of air and water pollution in Manila and other urban areas. The NPCC has established standards limiting automobile emissions but has lagged in regulating industrial air and water pollution. In 1996, industrial carbon dioxide emissions totaled 63.2 million metric tons. The nation's cities create an average of 5.4 million tons of solid waste per year and 38 of the country's rivers contain high levels of toxic contaminants.

The nation has 479 cu km of renewable water resources, with 88% used to support farming and 4% used for industrial activity. Only 79% of the rural population has access to safe drinking water. Pollution has also damaged the coastal mangrove swamps, which serve as important fish breeding grounds. Between the 1920s and 1990s, the Philippines lost 70% of its mangrove area. About 50% of its coral reefs are rated dead or dying as a result of pollution and dynamiting by fishermen. The nation is also vulnerable to typhoons, earthquakes, floods, and volcanic activity.

In 2001, 49 of the nation's mammal species, 86 bird species, and 320 plant species were threatened with extinction. Endangered species in the Philippines include the monkey-eating eagle, Philippine tarsier, tamarau, four species of turtle (green sea, hawksbill, olive ridley, and leatherback), Philippines crocodile, sinarapan, and two species of butterfly. The cebu warty pig, Panay flying fox, and Chapman's fruit bat have become extinct.

## 6 POPULATION

The population of Philippines in 2003 was estimated by the United Nations at 79,999,000, which placed it as number 14 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 37% 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 1.79%, with the projected population for the year 2015 at 96,338,000. The population density in 2002 was 267 per sq km (691 per sq mi). The population is unevenly distributed, being most densely concentrated in Luzon and the Visayan Sea islands.

It was estimated by the Population Reference Bureau that 59% of the population lived in urban areas in 2001. The capital city, Manila, had a population of 10,546,000 in that year. Created in 1975, metropolitan Manila includes four cities—Manila proper, Quezon City, Caloocan City, and Pasay City—and 13 surrounding municipalities. Other major cities include Davao, Cebu, Zamboanga, Bacolod, Cagayan de Oro, and Iloilo. According to the United Nations, the urban population growth rate for 2000–2005 was 3.1%.

## 7 MIGRATION

The rapid growth of the Philippine population has led to considerable internal migration. On Luzon, frontier-like settlements have pushed into the more remote areas. Mindoro and Palawan islands also have attracted numerous settlers, and hundreds of thousands of land-hungry Filipinos have relocated to less densely populated Mindanao. There also has been a massive movement to metropolitan Manila, especially from central Luzon. Emigration abroad is substantial. In 1989 it came to 55,703. Emigration to the United States particularly has been considerable: as of the 1990 US census, 1,406,770 Americans (chiefly in California and Hawaii) claimed Filipino ancestry. To reduce domestic unemployment, over 500,000 Philippine citizens were working abroad in the late 1980s and early 1990s, mainly in the Middle East, but also in Hong Kong and Singapore.

As of 1998, there were still 1,589 asylum-seekers from Vietnam in a Palawan camp, who were refused refugee status but allowed to stay pending a repatriation solution. Distinctions between Indochinese and other nationalities have been dropped, and all are now referred to as urban refugees. As of 1999, the Philippines hosted 306 urban refugees and their dependents. More than half of these were from the Middle East, including 33 Iranians, 24 Iraqis, 19 Palestinians, and 21 Somalis. Many refugees became legal exiles while studying in the Philippines following political or military upheavals in their homelands; a majority have since married Filipino nationals. In 2000, the net migration rate was -2.6 migrants per 1,000 population, amounting to a loss of 190,000 people. The number of migrants that year was 160,000. The government views the emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

Filipinos of Malay (Malayan and Indonesian) stock constitute about 95.5% of the total population. They are divided into nine main ethnic groups: the Tagalog, Ilocanos, Pampanguenos, Pangasinans, and Bicolanos, all concentrated in Luzon; the Cebuanos, Boholanos, and Ilongos of the Visayas; and the Waray-Waray of the Visayas, Leyte, and Samar. The Chinese minority totaled about 1.5% of the population in 1999. In addition, 10 Muslim groups, mainly of Mindanao and the Sulu Archipelago, comprised about 4% of the population. Numerous smaller ethnic groups inhabit the interior of the islands, including the Igorot of Luzon and the Bukidnon, Manobo, and Tiruray of Mindanao. These other groups accounted for the remaining 3% of the population in 1999.

## 9 LANGUAGES

There are two official languages: Pilipino (based on Tagalog), the national language adopted in 1946 and understood by a majority of Filipinos; and English, which is also widely spoken and understood. Spanish, introduced in the 16th century and an official language until 1973, is now spoken by only a small minority of the population. More than 80 indigenous languages and dialects (basically of Malay-Indonesian origin) are spoken. Besides Tagalog, which is spoken around Manila, the principal languages include Cebuano (spoken in the Visayas), Ilocano (spoken in northern Luzon), and Panay-Hiligaynon. The teaching of Pilipino is mandatory in public and private primary schools, and its use is encouraged by the government.

## 10 RELIGIONS

Most of the population (about 85%) belong to the Roman Catholic Church. Other Christian churches represent about 9%. Among Christian and Protestant groups, there are numerous denominations. In addition, there are three churches established by Filipino religious leaders, the Independent Church of the Philippines or Aglipayan, and the Iglesia ni Cristo (Church of

Christ), and the Ang Dating Daan (an offshoot of the Church of Christ). Muslims (representing about 5%), commonly called Moros by non-Muslims, are concentrated in Mindanao and the Sulus. Most Muslims are Sunni. Buddhists, Baha'is, Chinese folk religionists, and tribal religionists, mainly in the more inaccessible mountainous areas of Luzon and Mindanao, constitute the remaining 3%. There are also small communities of Hindus and Jews. It is believed that a majority of the indigenous population includes elements of native religions within their practice of other faiths.

Freedom of religion is guaranteed by the constitution. In an effort to reduce tensions between Christians and Muslims in the southern islands and to answer Muslim autonomist demands, the government established an Office of Muslim Affairs in 1981 and allocated funds for Islamic legal training and for Muslim schools and cultural centers. Part of its role as of 1999 involved coordinating the travel of pilgrims to Mecca, Saudi Arabia, and coordinating diplomatic ties with countries that have contributed to Mindanao's economic development and to the "peace process" with insurgent groups.

## 11 TRANSPORTATION

The total length of roadways in 2002 was 199,950 km (124,248 mi), of which only 39,590 km (24,601 mi) were paved. Luzon contains about one-half of the total road system, and the Visayas about one-third. There were 755,100 passenger cars (including jeepneys, or minibuses) in 2001, nearly half of them registered in Manila; there were also 579,800 commercial vehicles. In 2002, there were 897 km (557 mi) of common-carrier railroad track on Luzon and Panay, which only plays a minor role in transportation. There are 3,219 km (2,000 mi) of waterways, but their use is limited to vessels with a draft of less than 1.5 m (4.5 ft).

Water transportation is of paramount importance for inter-island and intra-island transportation. A small offshore fleet registered under the Philippine flag is engaged in international commerce, but most ocean freight is carried to and from the Philippines by ships of foreign registry. In 2002, the merchant fleet numbered 416 ships, totaling 5,179,029 GRT. There are 25 major ports. Manila is the busiest Philippine port in international shipping, followed by Cebu and Iloilo. Other ports and harbors include Batangas, Cagayan de Oro, Davao, Guimaras Island, Iligan, Jolo, Legaspi, Masao, Puerto Princesa, San Fernando, Subic Bay, and Zamboanga.

In 2001 there were 275 airports, of which 82 had paved runways. Ninoy Aquino International Airport, formerly Manila International Airport, is the principal international air terminal. Five other airports serve international flights as well. Philippine Air Lines (PAL), the national airline, provides domestic and international flights. Under the Aquino government there were plans to sell PAL stock to the private sector. In 2001, 5,651,700 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Evidence of human habitation dates back some 250,000 years. In more recent times, experts believe that the Negritos, who crossed then existing land bridges from Borneo and Sumatra some 30,000 years ago, settled the Philippine Islands. Successive waves of Malays, who arrived from the south, at first by land and later on boats called *barangays*—a name also applied to their communities—came to outnumber the Negritos. By the 14th century, Arab traders made contact with the southern islands and introduced Islam to the local populace. Commercial and political ties also linked various enclaves in the archipelago with Indonesia, Southeast Asia, India, China, and Japan. Ferdinand Magellan, a Portuguese-born navigator sailing for Spain, made the European discovery of the Philippines on 15 March 1521 and



LOCATION: 4°23' to 21°25' N; 116° to 127°E. TERRITORIAL SEA LIMIT: 12 miles.

landed on Cebu on 7 April, claiming the islands for Spain, but the Filipino chieftain Lapulapu killed Magellan in battle. The Spanish later named the islands in honor of King Philip II, and an invasion under Miguel Lopez de Legaspi began in 1565. The almost complete conversion of the natives to Christianity facilitated the Spanish conquest; by 1571, it was concluded, except for the Moro lands (Moro is the Spanish word for Moor). The Spanish gave this name to Muslim Filipinos, mostly

inhabitants of southern and eastern Mindanao, the Sulu Archipelago, and Palawan. The Spanish administered the Philippines, as a province of New Spain, from Mexico. Trade became a monopoly of the Spanish government; galleons shipped Oriental goods to Manila, from there to Acapulco in Mexico, and from there to the mother country.

Although Spain governed the islands until the end of the 19th century, its rule was constantly threatened by the Portuguese, the Dutch, the English (who captured Manila in 1762, occupying it for the next two years), the Chinese, and the Filipinos themselves. After the 1820s, which brought the successful revolts of the Spanish colonies in the Americas, Filipinos openly agitated against the government trade monopoly, the exactions of the clergy, and the imposition of forced labor. This agitation brought a relaxation of government controls: the colonial government opened ports to world shipping, and the production of such typical Philippine exports as sugar, coconuts, and hemp began. Filipino aspirations for independence, suppressed by conservative Spanish rule, climaxed in the unsuccessful rebellion of 1896–98. Jose Rizal, the most revered Filipino patriot, was executed, but Gen. Emilio Aguinaldo and his forces continued the war. During the Spanish-American War (1898), Aguinaldo declared independence from Spain on 12 June. When the war ended, the United States acquired the Philippines from Spain for \$20,000,000. US rule replaced that of the Spanish, but Philippine nationalists continued to fight for independence. In 1899, Gen. Aguinaldo became president of the revolutionary First Philippine Republic and continued guerrilla resistance in the mountains of northern Luzon until his capture in 1901, when he swore allegiance to the United States. Over the long term, the effect of US administration was to make the Philippines an appendage of the US economy, as a supplier of raw materials to and a buyer of finished goods from the American mainland. Politically, US governance of the Philippines was a divisive issue among Americans, and the degree of US control varied with the party in power and the US perception of its own security and economic interests in the Pacific. In the face of continued nationalist agitation for independence, the US Congress passed a series of bills that ensured a degree of Philippine autonomy. The Tydings-McDuffie Independence Law of 1934 instituted commonwealth government and further stipulated complete independence in 1944. In 1935, under a new constitution, Manuel Luis Quezon y Molina became the first elected president of the Commonwealth of the Philippines.

On 8 December 1941, Japan invaded the Philippines, which then became the focal point of the most bitter and decisive battles fought in the Pacific during World War II. By May 1942, the Japanese had achieved full possession of the islands. US forces, led by Gen. Douglas MacArthur, recaptured the Philippines in early 1945, following the Battle of Leyte Gulf, the largest naval engagement in history. In September 1945, Japan surrendered. On 4 July 1946, Manuel A. Roxas y Acuna became the first president of the new Republic of the Philippines. Both casualties and war damage wreaked on the Philippines were extensive, and rehabilitation was the major problem of the new state. Communist guerrillas, called Hukbalahaps, threatened the republic. Land reforms and military action by Ramon Magsaysay, the minister of national defense, countered the Huks revolutionary demands. Magsaysay was elected to the presidency in 1953 but died in an airplane crash in 1957. Carlos P. Garcia succeeded Magsaysay and then won election to the office in 1958. Diosdado Macapagal became president in November 1961. He was succeeded by Ferdinand Edralin Marcos following the 1965 elections. Marcos was reelected in 1969 with a record majority of 62%. The Marcos government brutally suppressed the renewed Hukbalahap insurgency, but armed opposition by Muslim elements, organized as the Moro National Liberation

Front (MNLF), the Maoist-oriented New People's Army (NPA), and by other groups gathered force in the early 1970s.

Unable under the 1935 constitution to run for a third term in 1973, President Marcos, on 23 September 1972, placed the entire country under martial law, charging that the nation was threatened by a "full-scale armed insurrection and rebellion." Marcos arrested many of his more vehement political opponents, some of whom remained in detention for several years. In January 1973, the Marcos administration introduced a new constitution, but many of its provisions remained in abeyance until 17 January 1981, when Marcos finally lifted martial law. During the intervening period, Marcos consolidated his control of the government through purges of opponents, promotion of favorites, and delegation of leadership of several key programs—including the governorship of metropolitan Manila and the Ministry of Human Settlements—to his wife, Imelda Romualdez Marcos. Although Marcos made headway against the southern guerrillas, his human-rights abuses cost him the support of the powerful Roman Catholic Church, led by Jaime Cardinal Sin. Elections were held in April 1978 for an interim National Assembly to serve as the legislature until 1984, but local elections held in 1980 were widely boycotted. Pope John Paul II came to Manila in February 1981, and even though martial law was no longer in effect, he protested the violation of basic human rights. In June 1981, Marcos won reelection for a new six-year term as president under an amended constitution preserving most of the powers he had exercised under martial rule. New threats to the stability of the regime came in 1983 with the rising foreign debt, a stagnant economy, and the public uproar over the assassination on 21 August of Benigno S. Aquino, Jr. Aquino, a longtime critic of Marcos, was shot at the Manila airport as he returned from self-exile to lead the opposition in the 1984 legislative elections. The gunman was immediately killed, and 26 others suspected of conspiracy in the assassination were acquitted in December 1985 for lack of evidence. Public sympathy gave opposition parties 59 out of 183 elective seats in 1984.

In 1985, political pressures forced Marcos to call for an election in February 1986 in view of a widespread loss of confidence in the government. The Commission on Elections and the National Assembly, controlled by his own political party, proclaimed Marcos the winner. His opponent, Maria Corazon Cojuangco Aquino, the widow of Benigno S. Aquino, claimed victory, however, and charged the ruling party with massive election fraud. The National Movement for Free Elections, the United States, and other international observers supported Aquino's charge. Accordingly, other countries withheld recognition of Marcos. On 21 February 1986, a military revolt grew into a popular rebellion, urged on by Jaime Cardinal Sin. US president Ronald Reagan gave Marcos an offer of asylum, which Reagan guaranteed only if Marcos left the Philippines without resistance. Marcos went into exile in Hawaii.

#### After Marcos

On 25 February 1986, Corazon Aquino assumed the presidency. Her government restored civil liberties, released political prisoners, and offered the NPA a six-month cease-fire, with negotiations on grievances, in exchange for giving up violence. Because Aquino came to power through the forced departure of an officially proclaimed president, the legality of her regime was suspect. Consequently, she operated under a transitional "freedom constitution" until 11 February 1987, when the electorate ratified a new constitution. On 11 May 1987 the first free elections in nearly two decades were held under the new constitution. More than 83% of eligible voters cast their ballots, 84 candidates ran for the 24 senate seats, and 1,899 candidates ran for the 200 house seats. There were 63 election-related killings. Old-line political families still controlled the system, as

169 House members out of the 200 elected either belonged to or were related to these families.

On 20 December 1987 one of the worst disasters in maritime history occurred when an overcrowded passenger ship collided with an oil tanker off Mindoro Island and at least 1,500 people perished. This delayed local elections until 18 January 1988. Nationwide 150,000 candidates ran for 16,000 positions as governor, vice governor, provincial board member, mayor, vice mayor, and town council member. In 1988 election-related violence killed more than 100 people. Members of the pro-government parties, a faction of the PDP-Laban and Lakas ng Bansa, formed a new organization, Laban ng Demokratikong Pilipino (LDP) in June 1988. In March 1989 the thrice-postponed election for barangay officials was held, electing some 42,000 barangay captains. In August 1989 President Aquino signed a law giving limited autonomy to provinces where most Philippine Muslims lived: Mindanao, Palawan, Sulu, and Tawi-Tawi islands.

There were five coup attempts between the time Aquino took office and the end of 1987. This continuing succession of coup plots culminated in a large, bloody, well-financed attempt in December 1989. Led by Colonel Gregorio Honasan (who participated in the 1987 coup attempt, and was a close associate of Senator Juan Ponce Enrile) and involving more than 3,000 troops that targeted several bases; US air support helped to quell this attempt. The Senate granted Aquino emergency powers for six months. President Aquino's administration lost international credibility with the appeal for US military support to quell the coup attempt. The authorities made arrests, but the Supreme Court ruled that Senator Juan Ponce Enrile could not be charged with murder, nullifying a criminal case against him. He was charged in a lower court with rebellion. In September 1990, 16 military members were convicted of the assassination of Senator Benigno Aquino in 1983 and sentenced to life in prison.

Former president Ferdinand Marcos had appealed to Aquino to allow him to attend the funeral of his mother, as he had appealed several times to visit his mother while she was ill; Aquino denied each request. The Philippine government had traced at least \$5 billion in deposits to Swiss bank accounts made by Marcos. Marcos attempted to negotiate his return to the Philippines, promising his support for Aquino and the return of \$5 billion to the Philippines. Aquino also rejected his wife Imelda's plea for her husband's return. The Philippine government filed an antigraft civil suit for \$22.6 billion against Marcos in 1987. Marcos and his wife, Imelda, were indicted in the United States, charged with the illegal transfer of \$100 million in October 1988. On 28 September 1989 former President Ferdinand Marcos died in Honolulu. Aquino refused to allow his burial in the Philippines.

Under pressure from Communist rebels Aquino removed the US military bases from the Philippines in 1989. Three US servicemen were murdered outside Clark Air Force Base and the Communists took responsibility for the murders. A Communist guerrilla who admitted participating in the 21 April 1989 assassination of US Army Colonel James Row was arrested. In September 1989 US vice president Dan Quayle met with Aquino to discuss the renewal of the lease on US military bases. Prior to his arrival two American civilians working on the bases were killed; the government attributed these deaths to Communist guerrillas. The Communists continued to threaten US servicemen and local politicians. Anti-American demonstrations at Clark Air Base and in Manila led to clashes with the police and to injuries. The Communists continued their threats and two more US servicemen were killed near the Clark Air Base. In June of 1990 the Peace Corps removed 261 volunteers from the Philippines after Communist threats against them. In September 1990 Aquino said it was time to consider an "orderly withdrawal" of US forces from the Philippines.

Within a year the Philippines was pummeled with three major natural disasters. In July 1990 an earthquake measuring 7.7 on the Richter scale struck. The epicenter was 55 mi north of Manila and more than 1,600 people were killed. A super-typhoon devastated the central Visayas in November 1990. An even more destructive natural disaster occurred on 12 June 1991 when Mount Pinatubo in Zambales province, a volcano dormant for more than 500 years, violently erupted, causing the abandonment of Clark Air Base in Angeles City; 20,000 US military, their dependents, and civilian employees evacuated to the United States from Clark and the Subic Bay Naval Station.

The Philippine-American Cooperation Talks (PACT) reached agreement on military base and non-base issues, but Philippine Senate refused to ratify the proposed treaty. On 6 January 1992 the Philippines government served notice of the termination of the US stay at Subic Naval Base in Zambales. After almost a century of US military presence, on 30 September 1992 the United States handed over Subic Naval Base to the Philippines. The Philippine government turned it into a free port, headed until 1998 by Dick Gordon.

Amnesty International (AI), the human rights organization, published a report in 1992 critical of the Aquino administration's assent to human rights violations perpetrated by the military; AI alleged that 550 extra judicial killings occurred during 1988-91. The military refuted the AI report citing its oversight of rebel activities.

In March 1991 President Aquino stated that Imelda Marcos could return to the Philippines, but that she faced charges that her husband stole \$10 billion during his 20 years as president. Mrs. Marcos returned in November, after five years in Hawaii, to face civil and criminal charges, including tax fraud. In January 1992 Imelda Marcos announced that she would run for election in 1992; in the same month she was arrested, and then released, for failing to post bail on charges that she unlawfully maintained accounts in Switzerland. In September 1993 the government permitted the embalmed body of Ferdinand Marcos to return to the Philippines for burial near his home in northern Luzon. On 24 September 1993 Imelda Marcos was found guilty of participating in a deal that was "disadvantageous to the government" under the Anti-Graft and Corruption Practices Act. She faced a maximum prison sentence of 24 years, but she remained free on bail while her appeal was considered.

In national and local elections held 11 May 1992, Fidel V. Ramos and Joseph E. Estrada were elected president and vice president, respectively. On 30 June 1992 Fidel Ramos succeeded Corazon Aquino as president of the Philippines with a plurality of 23.6%. Nearly 85% of eligible voters turned out to elect 17,205 officials at national, regional, and local levels. The election was relatively peaceful with only 52 election-related deaths reported. Rules required voters to write the names of the candidate they wanted for office. This, combined with the number of candidates, meant it was several weeks before the votes were completely tallied. Ramos, a Methodist and the Philippine's first non-Catholic president, considered the country's population growth rate as an obstacle to development. A rally of 300,000 Catholics led by Cardinal Sin took place in Manila in 1993 to protest the Ramos administration's birth control policies and the public health promotion of prophylactics to limit the spread of AIDS.

Domestic insurgency by the Muslim population continued throughout the 1980s. By the 1990s, however, internal divisions among the Muslims, reduced external support, military pressure, and government accommodations, including the creation of the Autonomous Region in Muslim Mindanao in 1990 had greatly reduced the threat. In January 1994 the government signed a cease-fire agreement with the Moro National Liberation Front, ending 20 years of guerrilla war. Splinter groups among the

Muslim population continue, however, to cause difficulties for both the MNLF and the government.

The last remaining communist insurgency in Asia was reduced temporarily by the Ramos government's peaceful signal, the 1992 Anti-Subversion Law, and the 1993 split in the ranks of the NPA that created a lull until issues related to the weakened leadership were resolved. The NPA returned to violent opposition sporadically throughout the 1990s, especially by the Revolutionary Proletarian Army, an offshoot of the NPA. The NPA significantly increased its use of children as armed combatants and noncombatants during this same time.

In January 1994 the congress pass a law passed restoring the death penalty for 13 crimes including treason, murder, kidnapping and corruption. Police reform was a particular goal of the legislation. This legislation was partly in response to a series of abductions of wealthy ethnic Chinese Filipinos abducted for ransom, in which the Philippine National Police were found to be involved. The result, however, was that in February of 1999, the Philippines carried out its first execution in 23 years when Leo Echegaray, 38, a house painter convicted of raping his 10-year-old stepdaughter, was put to death.

Conflicting claims to the Spratly Islands in the South China Sea are a source of tension between the Philippines and the People's Republic of China. In 1989 Chinese and Philippine warships exchanged gunfire in the vicinity of the Spratly Islands. The incident was resolved by diplomatic means. In June 1994 China protested an oil exploration permit granted to Vaalco Energy of the United States, and to Alcorn Petroleum and Minerals, its Philippine subsidiary. The Philippine response was to refer to a principle of "common exploration" and development of the Spratlys. China had employed this same principle when the Philippines had protested China's granting the United States permission to explore in the Spratlys in 1993. China, Vietnam, Taiwan, the Philippines, Malaysia, and Brunei all lay claim to all, or a portion, of the Spratly Islands. In June 1994 a 5-day conference on East Timor held in Manila ended with an agreement to establish a coalition for East Timor in the Philippines and proposed a peace plan based on the gradual withdrawal of Indonesian troops. But turmoil in the Spratlys did not end. In 1995, China briefly occupied Mischief Reef in a part of the islands claimed by the Philippines. In spring of 1997, Chinese warships were seen near Philippine-occupied islands in the chain. The two countries have also traded occupation of Scarborough Shoal, heightening tensions and prompting Manila to seek renewed American military presence. In May 1999 the Philippine Senate ratified a new Visiting Forces Agreement with the United States, despite claims by opponents that the VFA would give the US military the opportunity to bring nuclear weapons, without declaration, into the Philippines, violating the Philippine constitution.

The issue of Filipino women forced to work abroad, long a controversy in the country's large impoverished class, came to a head in 1995. In March, Filipina domestic worker Flor Contemplacion was executed in Singapore for the murder of a maid and a child. Outraged Filipinos claimed the girl was framed; they filled the streets of Manila in protest. The crisis, the product of unemployment and underemployment forcing families to export their children to low-wage overseas jobs, culminated in Mr. Ramos's sacking of two cabinet ministers.

In January 1996, Philippine police uncovered and thwarted a plot by Islamic extremists to assassinate Pope John Paul II during his visit to Manila that month.

Muslim rebels in Mindanao continued their insurgencies against the government, raiding the trading town of Ipil in April 1996. The terrorists killed 57 people and burned the town's business district. The rebels also took part in the resurgence of kidnappings and bank robberies in Manila and Mindanao. More than 100 kidnappings were reported in 1996, many in which

police officers were also suspected. A peace agreement between the Philippine government and the MNLF was signed on 2 September 1996, that ended the 24-year-old war in Mindanao. The agreement was signed by the government chief negotiator Manuel Yan, Nur Misuari, Indonesian Foreign Minister Ali Alatas, and Secretary General Hamid Algabid of the Organization of Islamic Conference (OIC). Later, Misuari ran for and won the governorship of the Autonomous Region for Muslim Mindanao (ARM) in the 9 September 1996 elections.

The Philippine economy suffered a harsh blow in 1995 when a typhoon ravaged the rice harvest, trebling the destruction of the rice acreage lost to the Mount Pinatubo eruption. But the economy rebounded in late 1995 and through 1996, buoyed by the government's massive infrastructure improvements and plans to develop former US military bases Subic Bay and Clark Air Force Base as tourist attractions and economic zones.

President Ramos introduced the Philippines 2000 movement, which was both a strategy and a movement; he called it the Filipino people's vision of development by the year 2000. As envisioned, the Philippines by the year 2000 would have a decent minimum of food, clothing, shelter, and dignity. The major goal of Philippines 2000 was to make the Philippines the next investment, trade, and tourism center in Asia and the Pacific. The Ramos administration achieved several of its economic goals but few of the social changes envisioned.

On 30 June 1998 the newly elected President, Joseph Ejercito Estrada, took office. The new Vice President was Gloria Macapagal-Arroyo. In November 2000, impeachment proceedings began against Estrada on allegations of corruption, betrayal of the public trust, and violation of the constitution. Estrada stepped down as president on 20 January 2001 after months of protests, and Arroyo was sworn in as president. Estrada in April 2001 was charged with taking more than US\$80 million from state funds while in office; he was arrested and placed in custody. Arroyo faced a sluggish economy upon coming into office; the economy was still recovering from the 1997-98 Asian financial crisis. She initiated privatization and deregulation policies, especially in agriculture and the power-generating industry. On 30 December 2002, Arroyo declared she would not seek a second term in the 16 May 2004 presidential elections, so that she could focus on her economic reform agenda, restore peace and order, reduce corruption, and "heal political rifts."

The separatist conflict on Mindanao had claimed more than 120,000 lives in three decades as of December 2002. In March 2001, the 12,500-member Moro Islamic Liberation Front declared a cease-fire and declared it was ready to hold talks with the government. However, on 11 February 2003, more than 2,000 government soldiers advanced toward an MILF base near Pikit, attempting to disband a group of kidnappers known as the "Pentagon gang," which is on the list of US terrorist organizations. Approximately 135 MILF fighters were killed in three days of fighting. In January 2002, nearly 700 US troops, including 160 Special Forces soldiers, were sent to Mindanao to assess the military situation, provide military advice, and train the 7,000 Philippine soldiers pursuing the guerrillas of the Abu Sanyaf group operating in the southern islands of Basilan and Jolo. The Philippine constitution forbids foreign troops fighting on its territory.

Following the 11 September 2001 terrorist attacks on the United States, the United States urged countries around the world to increase anti-terrorist measures they might take. Southeast Asia was a primary focus of attention. In May 2002, the 10 members of ASEAN pledged to form a united anti-terror front and to set up a strong regional security framework. The steps include introducing national laws to govern the arrest, investigation, prosecution, and extradition of suspects. As well, they agreed to exchange intelligence information and to establish

joint training programs such as bomb detection and airport security.

The militant Islamic group Abu Sayyaf (“Bearer of the Sword”) is one of several guerrilla organizations involved in a resurgence of violence in the Philippines since 2000. It split off from the Moro National Liberation Front (MNLF) in 1991 to pursue a more fundamentalist course against the government. Actions taken since the early 1990s include bombings, assassinations, and kidnappings of priests and businessmen. One of its goals is an independent Islamic state in Mindanao, but its activities have been linked to international terrorism as well, including ties to Osama bin Laden’s al-Qaeda network, according to the US government. In May 2001, Abu Sayyaf kidnapped 20 people, including 3 Americans, demanding ransom. They beheaded one of the American captives, and held the others—a missionary couple—hostage. In June 2002, Philippine commandos attempted to rescue the couple and a Filipino nurse being held with them. Two of the hostages were killed in a shootout, and one of the missionaries was freed. In August, Abu Sayyaf kidnapped six Filipino Jehovah’s Witnesses and beheaded two of them. In October 2002, a series of bombings took place—on a bus in Manila and in locations in Zamboanga City that were blamed on Abu Sayyaf.

### 13 GOVERNMENT

Under the constitution of 11 February 1987 the Philippines is a democratic republican state. Executive power is vested in a president elected by popular vote for a six-year term, with no eligibility for reelection. The president is assisted by a vice president, elected for a six-year term, with eligibility for one immediate reelection, and a cabinet, which can include the vice president. Legislative power rests with a bicameral legislature. Congress consists of a senate, with 24 members elected for six-year terms (limited to two consecutive terms). Senators are chosen at large. Senators must be native-born Filipinos and at least 35 years old. A house of representatives is elected from single-member districts for three-year terms (limited to three consecutive terms). Districts are reapportioned within three years of each census. In 1998, 221 members were elected. Up to 50 more may be appointed by the president from “party lists” and “sectoral lists,” but the constitution prohibits the house of representatives from having more than 250 members. Representatives must be native-born Filipinos and at least 25 years of age. Presidential and legislative elections are next scheduled for 16 May 2004.

### 14 POLITICAL PARTIES

The first Philippine political party, established in 1900, was the Federal Party, which advocated peace and eventual statehood. Later, the Nationalist Party (NP) and the Democratic Party were established. They did not produce an actual two-party system, since the Nationalists retained exclusive control and the Democrats functioned as a “loyal opposition.” However, following Japanese occupation and the granting of independence, an effective two-party system developed between the Liberal Party (LP) and the NP. The Progressive Party, formed in 1957 by adherents of Ramon Magsaysay, polled more than one million votes in the presidential election of 1958. In the elections of November 1965, Senator Ferdinand Marcos, the NP candidate, received 55% of the vote. In the 1969 election, he was elected to an unprecedented second term. All political activity was banned in 1972, following the imposition of martial law, and was not allowed to resume until a few months before the April 1978 elections for an interim National Assembly. The Marcos government’s New Society Movement (Kilusang Bagong Lipunan-KBL) won that election and the 1980 and 1982 balloting for local officials, amid charges of electoral fraud and attempts by opposition groups to boycott the voting. The principal opposition

party was the People’s Power Movement-Fight (Lakas Ng Bayan-Laban), led by Benigno S. Aquino, Jr., until his assassination in 1983. This party joined with 11 other opposition parties in 1982 to form a coalition known as the United Nationalist Democratic Organization (UNIDO). Following Aquino’s murder, some 50 opposition groups, including the members of the UNIDO coalition, agreed to coordinate their anti-Marcos efforts. This coalition of opposition parties enabled Corazon Aquino to campaign against Marcos in 1986. In September 1986 the revolutionary left formed a legal political party to contest congressional elections. The Partido ng Bayan (Party of the Nation) allied with other left-leaning groups in an Alliance for New Politics. This unsuccessful attempt for electoral representation resulted in a return to guerrilla warfare on the part of the Communists.

After assuming the presidency, Aquino formally organized the People’s Power Movement (Lakas Ng Bayan), the successor to her late husband’s party. In the congressional elections of May 1987, Aquino’s popularity gave her party a sweep in the polls, making it the major party in the country. Marcos’s KBL was reduced to a minor party. Some of its members formed their own splinter groups, such as the Grand Alliance for Democracy (GAD), a coalition of parties seeking distance from Marcos. Others revived the LP and the NP, seeking renewed leadership. The left-wing People’s Party (Partido Ng Bayan), which supports the political objectives of the NPA, was a minor party in the elections. In May 1989 Juan Ponce Enrile reestablished the Nacionalista Party. A new opposition party, the Filipino Party (Partido Pilipino), organized in 1991 as a vehicle for Aquino’s estranged cousin Eduardo “Danding” Cojuangco’s presidential campaign. He ran third in the election, taking 18.1% of the vote, behind Miriam Defensor Santiago with 19.8% of the vote. On 30 June 1992 Fidel Ramos succeeded Corazon Aquino as president of the Philippines with a plurality of 23.6%. In September 1992 Ramos signed the Anti-Subversion Law signaling a peaceful resolution to more than 20 years of Communist insurgency, with the repeal of the antsubversion legislation in place since 1957. On 26 August 1994 Ramos announced a new political coalition that would produce the most powerful political group in the Philippines. Ramos’ Lakas-National Union of Christian Democrats (Lakas/NUCD) teamed with the Democratic Filipino Struggle (Laban ng Demokratikong Pilipino, Laban). Following the 1995 elections, the LDP controlled the Senate with 14 of the 24 members. The elections in 1998 changed the political landscape once more. In the Senate the newly created Laban Ng Masang Pilipino, led by presidential candidate, Joseph Estrada, captured 12 seats to the Lakas 5, PRP 2, LP 1, independents 3. The LAMP party also dominated the House of Representatives with 135 seats to the Lakas 37, LP 13, Aksyon Demokratiko 1, and 35 independents.

Political parties and their leaders in 2002 included: Kilusang Bagong Lipunan (New Society Movement), led by Imelda Marcos; Laban Ng Demokratikong Pilipino (Struggle of Filipino Democrats) or LDP, led by Eduardo Angara; Lakas, led by Jose De Venecia; Liberal Party or LP, led by Florencio Abad; Nacionalista Party, led by Jose Oliveros; National People’s Coalition or NPC, led by Eduardo Cojuangco; PDP-Laban, led by Aquilino Pimentel; and the People’s Reform Party or PRP, led by Miriam Defensor-Santiago.

### 15 LOCAL GOVERNMENT

Under the constitutions of 1935, 1973, and 1987, the country has been divided into provinces, municipalities, and chartered cities, each enjoying a certain degree of local autonomy. Each of the 73 provinces and subprovinces elects a governor, a vice-governor, and two provincial board members for terms of six years. There are 61 chartered cities headed by a mayor and a vice-mayor. Chartered cities stand on their own, are not part of a province, do not elect provincial officials, and are not subject to provincial



taxation, but have the power to levy their own taxes. Municipalities, of which each province is composed, are public corporations governed by municipal law. There are approximately 1,500 municipalities, and within each municipality are communities (*barangays*), each with a citizens' assembly. There are about 42,000 *barangays*. The 1987 constitution provides for special forms of government in the autonomous regions created in the Cordilleras in Luzon and the Muslim areas of Mindanao. Any region can become autonomous by a referendum. The Local Government Code of 1991 provided for a more responsive and accountable local-government structure. Local governments are to be given more powers, authority, responsibilities and resources through a system of decentralization.

## 16 JUDICIAL SYSTEM

Under the 1973 constitution, the Supreme Court, composed of a chief justice and 14 associate justices, was the highest judicial body of the state, with supervisory authority over the lower courts. The entire court system was revamped in 1981, with the creation of new regional courts of trials and of appeals. Justices at all levels were appointed by the president. Philippine courts functioned without juries. Delays in criminal cases were common, and detention periods in national security cases were long. Security cases arising during the period of martial law (1972–81) were tried in military courts. The 1987 constitution restored the system to what it had been in 1973. Despite the reinstatement of many procedural safeguards and guarantees, the slow pace of justice continues to be a major problem.

Currently, the national court system consists of four levels: local and regional trial courts; a national Court of Appeals divided into 17 divisions; the 15-member Supreme Court; and an informal local system for arbitrating or mediating certain disputes outside the formal court system. A *Shari'ah* (Islamic law) court system, with jurisdiction over domestic and contractual relations among Muslim citizens, operates in some Mindanao provinces. Supreme Court justices may hold office, on good behavior, until the age of 70.

The constitution calls for an independent judiciary and defendants in criminal cases are afforded the right to counsel. The legal system is based on both civil and common law. It is especially influenced by Spanish and Anglo-American laws. The Philippines accepts the compulsory jurisdiction of the International Court of Justice.

An informal local system for arbitrating or mediating certain problems operates outside the formal court system. There is no jury system. Defendants enjoy a presumption of innocence and have the right to confront witnesses, to present evidence and to appeal.

## 17 ARMED FORCES

The active armed forces numbered 106,000 in 2002 with reserves of 131,000. The army, with 73,000 personnel, with 8 infantry divisions and 5 engineer battalions. Equipment included 40 *Scorpion* tanks. The navy had a total of 24,000 personnel (including 7,500 marines), with one frigate and 58 patrol and coastal combatants. The air force had a strength of 16,000, with 49 combat aircraft and 67 armed helicopters. The Coast Guard had 3,500 personnel. The Philippine national police totaled 40,500, and the Citizen Armed Forces militia had 40,500 personnel. Defense expenditures in 1998 were \$995 million or 1.5% of GDP.

The government had a cease-fire agreement with the Bangsa Moro Army (5,700) and the Moro Islamic Liberation Front (11,000). Active rebel groups included the New People's Army (9,500), the Moro Islamic Reformist Group (900), and the Abu Sayaf Group (200). The numbers for opposition forces are

approximate. The Philippines sent troops and observers to participate in the UN mission in East Timor.

## 18 INTERNATIONAL COOPERATION

The Philippines is a charter member of the UN, having joined on 24 October 1945, and belongs to ESCAP and all the nonregional specialized agencies. It participates in the International Sugar Agreement and the International Wheat Agreement. The Philippines is a member of ASEAN and led in the formation of the Asian Development Bank, which opened its headquarters in Manila in 1966. The International Rice Research Institute and the Southeast Asia Research Center for Agriculture are both located in Los Banos, south of Manila. The Philippines is also a member of G-77 and the WTO and a signatory to the Law of the Sea.

## 19 ECONOMY

Efforts to transform the Philippine economy from a primarily agricultural producer of crops for subsistence and export to a more diversified growth economy led by manufactured exports commanding more favorable terms of trade like its Asian tiger neighbors have been repeatedly hindered by natural disasters and external economic shocks. In 1990–91 the islands suffered the triple blow of earthquake, super-typhoon, and volcanic eruption. In succession, there has been the even more devastating typhoon of 1995, the Asian financial crisis of 1997, and the global economic slowdown of 2001, continuing into 2002. The United States Central Intelligence Agency (CIA) estimates that in 1998 almost 40% its labor force was engaged in agriculture, with only 15.6% in manufacturing and construction.

The Philippine government's survey of labor and employment for 2001 and 2002 suggests that agriculture's dominance has become greater, not less, in recent years. The government's preliminary results show 61.3% of employed persons engaged in agriculture in 2002, up slightly from 61.1% in 2001, whereas the percent employed in industry (including manufacturing, construction, mining and quarrying, and power production) decreased from 10.2% in 2001 to 9.5% in 2002. The manufacturing sector, though expanded and diversified since political independence, depends on imported raw materials and cannot supply internal needs. Electronics and telecommunications exports, which had been growing by double digits before 2001 and had accounted for at least 75% of export revenues in 1999, proved vulnerable to the worldwide slowdown in consumer demand in the recession of 2001, and the contraction by half in foreign investment as a result of the 11 September 2001 terrorist attacks on the United States.

The Philippines has great potential as a tourist destination. However, since the early 1990s the tourist industry has, in addition to natural disasters and high fuel costs, been afflicted with political difficulties, particularly with the emergence of the Abu Sayyaf (Bearers of the Sword) Islamic fundamentalist group, empowered, ironically, like Osama bin Laden, by the US government support in the 1980s as "freedom fighters" in the Cold War end game in Afghanistan and known particularly for the beheading of hostages that are not otherwise released for large ransoms. On 27 May 2001 ASG kidnapped twenty people including three Americans from the upscale Dos Palomos resort in Palawan, causing a large exodus of foreign tourists. Tourism receipts peaked in 1997 at close to \$3 billion, but in 2000 were less than \$2 billion.

Though the Philippine economy, according to IMF data, had a real GDP growth rate in 2001 of 3.4%, down from 4.8% in 2000, this positive showing was due primarily to a 4% growth in agriculture, and in spite of a 15% fall in exports, and 61.1% decline in its trade surplus (to \$2.6 billion) compared to 2000. For the first three quarters of 2002, the government reported growth in all three sectors, with services leading at 5.1% increase

over 2001, industry second, at 3.8% growth, and agriculture at 2.3%. The improvement in services is ascribed to liberalization and deregulation that have encouraged innovations in telecommunications, retail, transportation and financing. The Malampaya natural gas project is central to industrial performance, while agriculture suffered from adverse weather conditions.

Widespread unemployment and underemployment plague the labor market. The government figures for January 2002 reported an unemployment rate of 10.3% and an underemployment rate of 15.9%. High rates of labor migration abroad provide some relief and accounts for a substantial portion of the country's foreign exchange earnings.

Throughout the 1990s the shortage of electric power has been a notorious constraint on the economy. In Manila, the industrial hub, power outages lasted from four to six hours per day. In 2000, in its Philippine Energy Plan (PEP) the government set as a goal 100% electrification by 2004. As of March 2002 it reported the project 85.6% complete. Consumer price protection was provided by the Price Act of 1992 through the stabilization of the price of basic necessities and prime commodities and by measures against undue price increases during emergency situations. In 1993 the inflation rate continued to decline and real economic growth accelerated through the beginning of 1997, before the onset of the Asian financial crisis in August. As measured by the consumer price index (CPI), inflation peaked in 1998 at 9.7%, but had declined to 4.4% in 2000. Though there was an increase to 6.1% in 2001, IMF staff projections for 2002 are for a new low of 4% CPI inflation. Between 1993 and 1999, the Philippine government liberalized telecommunications, deregulated transportation, privatized water, and resolved the power crisis.

Real GDP growth averaged 3% from 1988 to 1998, peaking at 5.3% in 1997 and bottoming out in 1998 at .4%. From 1999 to 2002 real growth has averaged close to 4%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the Philippines' gross domestic product (GDP) was estimated at \$335 billion. The per capita GDP was estimated at \$4,000. The annual growth rate of GDP was estimated at 2.8%. The average inflation rate in 2001 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 17% of GDP, industry 30%, and services 53%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$875. 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 37% of household consumption was spent on food, 11% on fuel, 1% on health care, and 14% on education. The richest 10% of the population accounted for approximately 36.6% of household consumption and the poorest 10% approximately 2.3%. It was estimated that in 2001 about 40% of the population had incomes below the poverty line. According to the United Nations, in 2000 remittances from citizens working abroad totaled \$125 million or about \$2 per capita and accounted for approximately 0.2% of GDP. Worker remittances in 2001 totaled \$122 million. Foreign aid receipts amounted to about \$7 per capita and accounted for approximately 1% of the gross national income (GNI).

## 21 LABOR

The Philippines had a labor force estimated at 32 million in 2000. In 1998, 40% were engaged in agriculture, forestry, and fishing

(compared with 58% in 1968), 17% worked in industry, and 43% in the service sector. In 2001, the unemployment rate was estimated at 10% of the workforce.

In May 1974, the government passed a new labor code that restructured the trade union movement on a one-industry, one-union basis. Most of the more than 3,700 trade unions are small; industrial unions have been united in the Philippines Trade Union Congress, and agricultural workers in the Federation of Free Farmers. Strikes are prohibited in such essential services as transportation, communications, and health care. In 2001, about 11% of the labor force was unionized, although only 2% were covered by collective bargaining agreements. While the right to strike and bargain are recognized by law, numerous instances of intimidation of union officials have been reported.

In 2002, the average legal daily minimum wage was \$5.60 for nonagricultural workers. This does not provide a family with a decent living standard. Perhaps as many as one-fifth of businesses in the Philippines do not pay the minimum wage. Agricultural wages are even lower, at a minimum of \$2.60 per day. The minimum working age is 15, although children even younger may work under the supervision of a parent or guardian. In practice, many children work in the informal economy, although serious efforts are being made by the government to reduce the number of children who are working.

## 22 AGRICULTURE

About one-third of the total land area is classified as arable. Three-fourths of the cultivated area is devoted to subsistence crops and one-fourth to commercial crops, mainly for export. Farms tend to be small, and many areas are double-cropped. Soils are generally fertile, but 30% of the agricultural land is suffering erosion.

In 1973, the Marcos government began a land-reform program that undertook to transfer landowners to about half of the country's 900,000 tenant farmers. By February 1986, over one-half of the area—about 600,000 ha (1,482,600 acres)—had not been distributed. The Aquino administration proposed a program in two stages: the first, covering 1.5 million ha (3.7 million acres) in 1987–89, involved previously undistributed land and other land held by the state; the second, covering 3.9 million ha (9.6 million acres) in 1990–92, involved land cultivating sugar, coconuts, and fruits. A more detailed 1990–1995 plan sought to increase productivity of small farms, maintain self-sufficiency in rice and corn production, and to increase the agricultural sector's role in the trade balance.

Roughly half the cultivated land is devoted to the two principal subsistence crops, palay (unhusked rice) and corn. Production of palay was 11,388,000 tons in 1999; long-term production has increased, mainly through the use of high-yielding hybrid seeds under a government development program begun in 1973. The Philippines attained self-sufficiency in rice in 1974 and became a net exporter of rice for the first time in 1977. A similar development plan was aimed at raising yields of corn, which is the chief food crop in areas unsuitable for rice-growing and is increasingly important as feed for use in the developing livestock and poultry industries. The Philippines has been self-sufficient in corn for human consumption since the late 1970s, but since production of animal feed lags behind the demand, imports are still necessary. Corn output in 1999 was 4,643,000 tons. Lesser crops include peanut, mango, cassava, camote, tomato, garlic, onion, cabbage, eggplant, calamansi, rubber, and cotton.

Commercial agriculture, dominated by large plantations, centers on coconuts and copra, sugarcane, tobacco, bananas, and pineapples. Coconuts are the most important export crop, accounting for 23% of world production; in 1999, 11,000,000 tons were produced. Copra production, in which the Philippines leads the world, rose from 1,470,000 tons in 1965 to an estimated 1,510,000 tons in 1999. As oil milling capacity rose,

the domestic market for copra expanded, accounting for almost all of the output and leaving only marginal amounts for exportation. The government put a ban on copra exports in March 1983, but it was lifted in March 1986. Sugarcane production provided the country's single largest export item until 1978, when output and prices fell. Production was 26.3 million tons in 1999 (compared with an annual average of 31.5 million tons during 1979–81). Pineapple production rose to 1,495,000 tons in 1999; production of coffee was 121,000 tons, and 3,561,000 tons of bananas were produced that year. Other important cash crops in 1999 included mangos, 932,000 tons; tobacco, 71,000 tons; and rubber, 64,000 tons.

### 23 ANIMAL HUSBANDRY

Animal husbandry never has been important, meat consumption being very low. The carabao, or water buffalo, are the principal draft animals, particularly in the rice paddies; hogs are the chief meat animals (except in Muslim sections). The Philippines is self-sufficient in pork and poultry, but imports of beef and dairy products are still necessary. In 2001 there were 11 million hogs, 6.2 million goats, 3 million buffaloes, 2.5 million head of cattle, and 116 million chickens. Meat production in 2001 included (in thousands of tons): pork, 1,849; chicken, 741; beef from cattle, 183; beef from carabao, 72; and goat, 35. Dairy production totaled 11,000 tons from cows and 19,000 tons from carabao in 2001; and eggs, 445,000 tons. The livestock and poultry sectors each contribute about 13% to the total value of agricultural production. In 2001, exports of livestock, meat, and skins were valued at \$6.8 million.

### 24 FISHING

Fish is the primary source of protein in the Filipino diet. Some 2,000 species abound in Philippine waters. Despite more than a doubling in output since the 1960s, the fishing industry remains relatively undeveloped, and large quantities of fish are imported. The Bureau of Fisheries and Aquatic Resources (BFAR) cites the continued environmental degradation of Philippine waters as a major constraint on fish production. In 2000, the total domestic fish catch was 1,892,832 tons (12th in the world), of which 8% came from inland waters. Exports of fish products in 2000 were valued at \$400 million.

Six species are most important, according to BFAR, because each has yielded 100,000 tons per year or more since the mid-1980s. These species are: sardines, roundscad, frigate tuna, anchovies, milkfish, and tilapia. Indian mackerel, skipjack and yellowfin tuna, sea bass, red snapper, mullet, kawakawa, squid, and prawn are also plentiful. Principal commercial fishing grounds are off Palawan, north of Panay and Negros, and to the south and west of Mindanao. Subsistence fishing is conducted throughout the archipelago. Fish ponds, chiefly for cultivation of bangos or milkfish, are principally in the swampy coastal areas of western Panay and around Manila Bay. Pearl shells (including cultured pearls), sponges, sea cucumbers (trepane), shark fins, and sea turtles are exported.

### 25 FORESTRY

Forests are an important economic resource in the Philippines. As of 2000, remaining forests occupy 5,789,000 ha (14,300,000 acres), equivalent to 19.4% of the total Philippine land area. Major commercial forest reserves are located in Mindanao, Luzon, Samar, Negros, and Palawan. Areas devoted to industrial tree plantations in 2000 were estimated at 753,000 ha (1,860,000 acres). Some 28,000 ha (69,000 acres) were reforested in 2000, 21% by the private sector.

Roundwood production in 2000 was estimated at 17.3 million cu m (610.7 million cu ft). Production of lumber in 2000 was estimated at 128,000 cu m (4.5 million cu ft); wood pulp, 175,000 cu m (6.2 million cu ft); and plywood, 282,000 cu m

(9.96 million cu ft). In the early 1980s, the Philippines was a significant exporter of tropical hardwood logs and lumber, but production fell by over 50% over the decade, leaving the country a net importer of tropical hardwood logs by 1990. The trade deficit for forest products was \$481.1 million in 2000.

Among other forest products are bamboo, rattan, resins, tannin, and firewood.

### 26 MINING

The mining and quarrying sector continued to decline in importance, accounting for 1% of GDP in 2000 and employing 1.5% of the labor force. Production for much of the last quarter of the 20th century was slowed by political instability, declining foreign investment, low international prices, high operation and production costs, labor problems, an inadequate mining law, and natural disasters such as earthquakes, volcanic eruptions, landslides, tsunamis, typhoons, floods, and drought. Nevertheless, the Philippines ranked second in the Asia-Pacific region, after Indonesia, in terms of mineral prospectivity and resources. Mining for metals accounted for 44% of the industry's production value and nearly 100% of mineral export earnings; Japan was the primary market, copper and gold were the principal commodities, and the mining industry generated \$1 billion in 2000. The Philippines reportedly had the world's largest source of refractory chromite, from Masinloc, and substantial resources of copper, gold, nickel, and silver. The production of chemicals and petroleum refining were leading industries in 2002.

Copper, from northern Luzon, Cebu, Negros, Marinduque, and Mindanao, was the leading mineral; 26,300 tons (metal content) was produced in 2000, down from 37,600 in 1999, 48,600 in 1997, and 61,600 in 1996. Gold output, from northern Luzon, Mindanao, Masbate, and the Negros islands, was 36,513 kg; and nickel, from Surigao and Palawan, Hinatuan, and the Dinagat islands, 23,000 tons, up from 8,450 in 1999 and 18,137 in 1997. The Nonoc nickel laterite project was to be redeveloped, with a new industrial partner; the project had a resource of 144 million tons with an average grade of 1.1% nickel and 0.11% cobalt, and projections for the 40-year life of the mine envisioned output of 41,000 tons per year of Class I nickel and 4,000 tons per year of high-purity cobalt. The Philippines also produced sizable quantities of metallurgic chromite, from western Luzon; chromite ore production totaled 20,900 tons (gross weight), down from 53,871 in 1998, 87,500 in 1997, and 107,068 in 1996, although Benguet Corp.'s Masinloc open-cut mine had a capacity of 105,000 tons per year. Silver was also produced for export. The industrial mineral sector was dominated by the production of limestone, marble, and sand and gravel. In 2000, the Philippines also produced platinum-group metals (as a byproduct), bentonite, hydraulic cement, clays (including red and white), feldspar, lime, magnesite, perlite, phosphate rock, pyrite and pyrrhotite (including cuprous), marine salt, silica sand, stone (including dolomite, volcanic cinder, tuff, quartz), and sulfur. No guano phosphate was produced in 1999 and 2000.

Exploitation of the Philippines' potentially rich mineral resources has been stimulated somewhat by the Mining Act of 1995, which was designed to promote the mining industry to the international community and to provide incentives to ensure efficiency and economic viability for mining endeavors. The law also aimed to help the domestic mining industry regain its competitiveness by allowing companies (contractors) to obtain an exploration permit for a specific area for up to four years. For a viable deposit, the code provided four production agreements—production sharing, co-production, joint-venture, or financial/technical assistance—with a duration of up to 50 years. A serious accident in 1996 involving spilled mine tailings from a copper mine on Marinduque led the government to freeze almost all applications for exploration licenses by foreign companies for one year. Through 2000, 59 exploration permits had been issued,

and more than 400 applications were pending. The mining industry employed 400,000 people—300,000 of them engaged in small-scale mining and panning activities, chiefly in artisanal gold workings.

## 27 ENERGY AND POWER

Net installed electrical capacity as of 2001 amounted to 13,242,000 kW, of which geothermal energy contributed about 24% and oil-fired plants 47%. Total electrical output in 2000 was 43.1 billion kWh, of which 57.6% was from fossil fuels, 19.9% from hydropower, and the rest from geothermal sources. The Philippines is the world's second-largest producer of geothermal energy, which is produced on Luzon, Leyte, and Negros. Consumption of electricity in 2000 was 37.8 billion kWh. Large hydroelectric plants have been installed on the Agno and Angat rivers on Luzon and at María Cristina Falls on the Agusan River in Mindanao.

The Power Development Program (PDP) calls for capacity additions of 13 million kW during 1996–2005, at an estimated cost of \$1.2–\$1.4 billion per year. Several nuclear power plants have been initiated, but they were all abandoned because of ceilings on foreign borrowing and, in the case of the completed plant at Bataan, the location of the site near a seismic fault line. The government announced in 2000 that it would build a 600 MW nuclear plant similar to the Bataan plant at a different location by 2020. The Power Industry Reform Act of 2001, which mandated deregulation and eventual privatization of the power industry, had the goals of developing indigenous power sources, reducing the cost of electricity, and encouraging foreign investment.

Commercial oil deposits were found in 1978, with production beginning the following year. The largest oil production field is located at West Linapacan. Domestic production increased from 1.4 million barrels in 1981 to 3.3 million barrels in 1982 but decreased to less than 0.5 million barrels in 1994. In 2001, oil production amounted to about 8,460 barrels per day, compared with consumption of 356,000 barrels per day. In October 1996, exploration began in the potentially oil-rich Cotabato Basin of the southern Philippines. As of 2002, it was expected that recent deep-sea offshore oil discoveries in the Malampaya field would substantially lessen the amount of oil imported by the Philippines. The Malampaya field also contains gas reserves estimated at 73.6 billion cu m (2.6 trillion cu ft), and development of the field to provide gas for three power plants represents the largest such project in the country's history, with one of the highest levels of foreign investment to date. At the beginning of 2002 the Philippines had natural gas reserves of 104.5 billion cu m (3.689 trillion cu ft), and the government had set a goal of increasing production to 42.4 billion cu m (1.5 trillion cu ft) per year. The Philippine government has developed an alternative energy program, including, for example, the use of "alcogas" (gasohol) and "cocodiesel" (coconut oil in diesel fuels).

In 1998, as a step toward removal from International Monetary Fund (IMF) supervision, the Philippines deregulated its oil industry, removing price controls, instituting a uniform tariff duty, and eliminating inventory requirements. However, due in part to the Asian economic crisis, the three established oil companies still controlled over 90% of the market in early 1999.

## 28 INDUSTRY

In January 2001 the Philippine government estimated that employment in industry had decreased by 86,000 since January 2000, or by 1.8%, and that its share of total employment had declined 1.2%. In this same period it reported a 7.4% increase in agricultural employment and a .6% increase in agriculture's share of the economy. These statistics reflect the setbacks the Philippines have encountered in its long-run strategy of converting to a more diversified economy with growth led by

high value-added manufactured exports. These problems were aggravated by the global economic recession in 2001 and the aftershocks of the 11 September 2001 terrorist attacks on the United States. Over half of the value of Philippine exports in 2000 were accounted for by information technology (IT) products, which were particularly affected by the global recession in 2001 and the aftershocks of the terrorist attacks. Measured on year to year basis, merchandise trade declined -19.5% in the fourth quarter of 2001 due in large part to a -28.8% decline in electronic components exports, which registered a further -5.8% decline for the first quarter of 2002, according to Philippine National Statistics.

Exports of electronics first surpassed food products and textiles in value in the late 1990s, as the government sought to shift from an economy based on agricultural produce and sweatshop factory output to an economy anchored by the assembly of computer chips and other electronic goods, many of them computer peripherals. Over 50 chip assemblers and computer components makers have invested in Philippine operations. Intel with two locations, in Manila and Cavite, has invested over \$3 billion and has been the Philippines leading exporter by value since 1997. Philips Semiconductors Philippines, Inc., which has been producing computer chips since 1985, opened a \$300 million facility in 1999. Other technology companies with major investments include Acer, Toshiba, Hitachi, Fujitsu, Cypress Semiconductor, and Amkor Technology. In a 1999 World Bank study, the Philippines was credited with one of the world's most technologically advanced export structures. The potential remains but it is dependent on recovery of the international economy. A promising development was a major natural gas discovery in the Malampaya field, formally inaugurated in 16 October 2001 with the completion of a 312 mile (504 km) sub-sea pipeline and the conversion of three power plants in Batangas to natural gas usage. Foreign investment increased 171% in 2001 to \$3.4 billion (almost \$2 billion FDI and \$1.4 billion portfolio investment), drawn also by a newly deregulated and privatized energy sector, contrary to the global trend that saw foreign investment decline by half. In the Philippine Energy Plan (PEP) 2000–2009 the government envisioned domestic energy production increasing to over 50% self-sufficiency from about 42% self-sufficiency in 2001. Oil production has not been promising: in 2001 only 2.3% of the oil consumed was produced in the Philippines. The Malampaya Deepwater Gas-to-Power Project has shifted the government focus to an emphasis on the development of natural gas resources.

By value, according to CIA estimates for 2001, the leading industries were textiles, pharmaceuticals, chemicals, wood products, food processing, petroleum products, electrical machinery, textiles, electronics assembly, petroleum refining, and fishing, with significant production in transport equipment, nonmetallic mineral products, fabricated metal products, beverages, rubber products, paper and paper products, leather products, publishing and printing, furniture and fixtures, and tobacco. Following the 11 September 2001 terrorist attacks on the United States, there were five months of contraction in industrial production before a return to growth in 2002. Year-on-year growth was strongest in lower-tech, more domestically oriented sectors such as leather products (57.7%), rubber products (31.1%), textiles (27%) and food processing (11.9%), while high-tech, export-oriented sectors such as electrical machinery and transport equipment grew more moderately, at 7.2% and 18.7% respectively. Overall industrial production index rose 4.7% in November 2002 on a year-on-year basis, according to Philippine official statistics.

The industrialization strategy proposed by the government in 1981 stressed development of exports and the accelerated implementation of 11 major industrial projects—a copper

smelter, a phosphate fertilizer plant, an aluminum smelter, a diesel-engine manufacturing plant, an expansion of the cement industry, a "cocochemical" complex (based on coconuts), an integrated pulp and paper mill, a petrochemical complex, heavy engineering industries, an integrated steel mill, and the production of "alcogas." The copper smelter, the phosphate fertilizer plant, and the "cocochemical" complex went into operation in 1985. Exports of power train components from Honda's plant in the Philippines are due to begin in 2003. Local cement and steel manufacturers are seeking protection from foreign imports as part of the government's announced policy to reimpose tariffs to the maximum allowed by the WTO on imports that are locally produced. Historically manufacturing production has been geographically concentrated in the Metro Manila area and the adjoining regions of Southern Tagalog and Central Luzon. With the progress in electrification, this geographic concentration has begun to decrease. Most industrial output is concentrated in a relatively few large firms. Although small and medium-sized businesses account for about 80% of manufacturing employment, they account for only about 25% of the value-added in manufacturing.

### 29 SCIENCE AND TECHNOLOGY

Leadership in formulating and implementing national science policy is exercised by the Department of Science and Technology. Special training in science is offered by the Philippine Science High School, whose graduates are eligible for further training through the department's scholarship program. The International Rice Research Institute in Los Banos, founded by the Rockefeller and Ford foundations and US AID in 1960, conducts training programs in the cultivation, fertilization, and irrigation of hybrid rice seeds. The Southeast Asian Regional Center for Graduate Study and Research in Agriculture maintains genotype and information banks for agricultural research.

The Philippine Nuclear Research Institute, founded in 1958, is located in Quezon City. The French Institute of Scientific Research for Development and Cooperation has an institute in Manila conducting research in molecular biology. In 1996, the Philippines had 68 universities and colleges offering courses on basic and applied sciences. In 1987-97, science and engineering students accounted for 14% of college and university enrollments. In the same period, research and development expenditures amounted to 0.22% of GNP; 157 scientists and engineers and 22 technicians per million people were engaged in research and development. In 1998, high-tech exports were valued at \$18.9 billion and accounted for 71% of manufactured exports.

### 30 DOMESTIC TRADE

The archipelagic structure of Philippine marketing requires the establishment of regional centers and adds considerably to distribution costs, foreign domination of much of marketing, direct government participation, and the proliferation of small firms. About 90% of all imported goods come through the Port of Manila. Makati City is the business center of the country and hosts a number of distribution centers, trading firms, commercial banks, and high-end retail establishments. Cebu City is the trading center of the south.

Small stores typify retail trade. Manila has major shopping centers and malls. Generally, sales are for cash or on open account. Retailing is conducted on a high markup, low-turnover basis. A law provides for price-tagging on retail items. Direct marketing, particularly of foreign name-brand products, has gained in popularity. English is the general language of commercial correspondence. Most advertising is local; the chief media are newspapers, radio, television, posters, billboards, and sound trucks.

Shops are usually open from 10 AM to noon and from 2 to 7:30 PM, Monday through Saturday; banking hours are weekdays from 9 AM to 3 PM. Office hours, and hours for the Philippine government are generally from 10 AM to 5 PM. Staggered hours, with up to three shifts, are common in the metropolitan Manila area.

### 31 FOREIGN TRADE

Between 1996, exports surged from \$20.5 billion to \$38.1 billion. Imports peaked in 1997 at \$38.6 billion, but by 2000 had dropped to \$33.8 billion. The 1999 and 2000 trade surpluses were the first since 1973; during the intervening period, expensive mineral fuel imports had thrown the balance into a deficit.

The Philippines' traditional exports were primary commodities and raw materials. However, by 2000, machinery and transport equipment made up the majority of exports. In 2000, exports of electric machinery (mostly microcircuits, diodes, and transistors) accounted for 51% of total exports, and garments contributed 6.8% to the total value of exports. In 2000, the Philippines exported a majority of electronics, including microcircuits, transistors and valves (44%); automatic data processing equipment (12.2%); and telecommunications equipment (2.7%). Other exports included garments (6.8%), vegetable oil (1.2%), and fruits and nuts (1.1%). The Philippines account for 6.6% of the world's soft vegetable oil exports. In 2000, machinery and electronics accounted for over three-fourths of all exports.

In 2000 the Philippines' imports were distributed among the following categories:

Consumer goods	5.0%
Food	6.1%
Fuels	12.1%
Industrial supplies	24.9%
Machinery	47.5%
Transportation	4.4%

The US and Japan continue to be the Philippines' primary trading partners. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	11,405	5,713	5,692
Japan	5,609	6,457	-848
Singapore	3,124	2,288	836
Netherlands	2,983	360	2,623
China (inc. Hong Kong)	2,570	2,180	390
United Kingdom	1,506	375	1,131
Malaysia	1,377	1,236	141
Germany	1,329	770	559
Thailand	1,207	966	241
Korea	1,173	2,476	-1,303

### 32 BALANCE OF PAYMENTS

Since World War II, the Philippines experienced frequent trade deficits, aggravated by inflationary pressures. Deficits were counterbalanced by US government expenditures, transfer of payments from abroad, official loans (US Export-Import Bank, IBRD, and private US banks), net inflow of private investment, tourist receipts, remittances from Filipino workers overseas, and contributions from the IMF.

In 1996, trade liberalization policies helped to push imports up by 22% while exports rose by only 18%. The result was a widening trade deficit that amounted to 13% of GDP. Foreign investment in the stock market and remittances from overseas workers helped to offset the deficit and avert a balance-of-payments crisis. In 1998, the Philippines recorded a trade surplus at about 2% of GNP in the current account due to high electronics exports and low imports due to the devaluation of the peso. This was the first surplus in 12 years.

Merchandise exports, in double digits through most of the 1990s, slowed to a single-digit growth pace in 2000, reflecting fewer export receipts from electronics and telecommunications parts and equipment. This decline was attributed by the electronics industry to weaker prices for maturing products and technologies, and to the decline in electronic industry investments from the 1994–97 boom years (when investment averaged \$1.5 billion a year).

Traditionally, exports of primary products failed to balance imports, leading the government to restrict imports. Structural change accelerated in the 1970s, as the contribution of industry (including construction) to GDP rose from 29.5% in 1970 to 36.5% by 1980, primarily as a result of export-oriented industrialization promoted by the Marcos government. The Aquino assassination in August 1983 had immediate economic consequences for the Marcos government, as did the broader Third World Debt Crisis. Hundreds of millions of dollars in private capital fled the Philippines, leaving the country with insufficient foreign exchange reserves to meet its payments obligations. The government turned to the IMF and its creditor banks for assistance in rescheduling the nation's foreign debt, and an austerity program was set up during 1984–85. In December 1986, under IMF guidance, the Aquino government launched a privatization program with the establishment of the Assets Privatization Trust (APT). Monopolies established under the Marcos administration in coconuts, sugar, meat, grains, and fertilizer were dismantled and a ban on copra exports was lifted. All export taxes were abolished; and the government allowed free access to lower-cost or higher-quality imports as a means of improving the cost-competitiveness of domestic producers.

Many difficulties remained, however. The prices of commodity exports, such as sugar, copper, and coconut products, were still weak, while demand for nontraditional manufactured products, such as clothing and electronic components, failed to rise. The structural reforms produced an initial recovery between 1986 and 1989, but this was arrested by the series of natural disasters in 1990–1991. In 1986, Aquino had also embarked on a Comprehensive Agrarian Reform Programme, but its goals remain unfulfilled.

In the 1990s, the government concluded three additional financial arrangements with the IMF—a stand-by agreement signed 20 February 1991 for about \$240 million (all drawn); an arrangement under the Extended Fund Facility (EFF) signed 24 June 1994 for about \$554 million (all drawn), and a stand-by agreement signed 1 April 1998 for about \$715 million (76.7% drawn down as of 31 December 2002). At the end of 2002, the Philippines owed over 140% of its quota to the Fund. Scheduled debt repayments to the IMF for 2003 are about \$330 million, and outstanding loans and purchases are not due to be retired until at least 2007. The country also had five debt reschedulings in the period 1984 to 1991 with the Paris Club—for official debt owed to aid donor countries—on which some payments are still owing. In January 2003, the Trade and Development Department announced at least a partial retreat from its 15 years of trade and investment liberalization, stating that it plans to bring tariff rates to the maximum allowed by the WTO for industrial imports, particularly petroleum imports, and for products produced in the Philippines. This would entail raising some duties that had previously been lowered. Exempted would be imports needed by its local manufacturers. Industrialization of the economy, and, therefore a major improvement in the country's terms of trade, remains elusive.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of the Philippines's exports was \$37 billion while imports totaled \$30 billion resulting in a trade surplus of \$7 billion.

The International Monetary Fund (IMF) reports that in 2001 the Philippines had exports of goods totaling \$31.2 billion and

imports totaling \$28.5 billion. The services credit totaled \$3.15 billion and debit \$5.09 billion. The following table summarizes the Philippines's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>4,503</b>
Balance on goods	2,746
Balance on services	-1,939
Balance on income	3,252
Current transfers	444
<b>Capital Account</b>	<b>-12</b>
<b>Financial Account</b>	<b>-4,317</b>
Direct investment abroad	161
Direct investment in the Philippines	1,792
Portfolio investment assets	234
Portfolio investment liabilities	178
Other investment assets	-13,893
Other investment liabilities	7,211
<b>Net Errors and Omissions</b>	<b>-854</b>
<b>Reserves and Related Items</b>	<b>-476</b>

### 33 BANKING AND SECURITIES

The Philippine banking structure consists of the government-owned Central Bank of the Philippines (created in 1949), which acts as the government's fiscal agent and administers the monetary and banking system; and some 45 commercial banks, of which 17 are foreign-majority-owned. Other institutions include more than 111 thrift banks, 787 rural banks, 38 private development banks, 7 savings banks, and 10 investment houses, and two specialized government banks. The largest commercial bank, the Philippine National Bank (PNB), is a government institution with over 194 local offices and 12 overseas branches. It supplies about half the commercial credit, basically as agricultural loans. The government operates about 1,145 postal savings banks and the Development Bank of the Philippines, the Land Bank of the Philippines, and the Philippine Amanah Bank (for Mindanao). There are also 13 offshore banking units in the country, and 26 foreign bank representative offices. Total assets reached approximately \$65 billion in March 2001, 39% of which belonged to the five largest banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$41.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.298%.

Philippine stock exchanges are self-governing, although the Philippine Securities and Exchange Commission, established in 1936, has supervisory power over registrants. The country's two stock exchanges, Manila and Makati (both in the capital), were formally merged in the Philippines Stock Exchange in March 1993. A computer link-up was effected a year later, although the two retained separate trading floors until November 1995. Only 220 companies were listed as of 1998. But the process of privatization is expected to push up listings, while domestic participation in the equity market is being specifically promoted by new regulations requiring that all initial public offerings reserve a 10% tranche for small investors. Before the Asian crisis, market capitalization of publicly listed companies had grown to \$89 billion, or six times the amount of 1992. But in 1998, only 10 of the largest companies accounted for more than half of trading volume. In 2000, a financial scandal in which the SEC failed to regulate the market properly drove the stock market down by a quarter and destroyed investor confidence. In 2000, market capitalization was a mere 38% of the previous year, and only 12% of the peak level in 1996.

### 34 INSURANCE

The Government Service Insurance System (GIS), a government organization set up in 1936, provides life, permanent disability, accident, old age pension, burial insurance and salary and real estate loan benefits. Compulsory third-party motor liability insurance went into effect on 1 January 1976. In addition, workers' compensation and personal accident insurance for workers abroad are compulsory. The Insurance Commission of the Department of Finance oversees the insurance industry.

Life and nonlife insurance companies provide coverage against theft, fire, marine loss, accident, embezzlement, third-party liability, and other risks. In 2001 US\$906 million in direct insurance premiums were written, US\$493 of which were for life insurance and US\$414 for nonlife insurance.

### 35 PUBLIC FINANCE

The principal sources of revenue are income taxes, taxes on sales and business operations, and excise duties. Infrastructural improvements, defense expenditures, and debt service continue to lead among the categories of outlays.

The government's commitment to fiscal balance resulted in a budget surplus for the first time in two decades in 1994. The surplus was achieved by higher taxes, privatization receipts, and expenditure cuts. The Philippines was not affected as severely by the Asian financial crisis of 1998 as many of its overseas neighbors, as a result of over \$7 billion in remittances annually by workers overseas.

The US Central Intelligence Agency (CIA) estimates that in 2001 the Philippines's central government took in revenues of approximately \$10.9 billion and had expenditures of \$13.8 billion. Overall, the government registered a deficit of approximately \$2.9 billion. External debt totaled \$50 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%	10,900
Tax revenue	86.9%	9,472
Non-tax revenue	12.5%	1,367
Capital revenue	0.2%	23
Grants	0.4%	38
EXPENDITURES	100.0%	13,800
General public services	4.7%	652
Defense	4.6%	640
Public order and safety	6.8%	932
Education	17.2%	2,371
Health	1.9%	267
Social security	3.9%	541
Housing and community amenities	0.4%	52
Recreation, cultural, and religious affairs	0.7%	98
Economic affairs and services	12.9%	1,774
Other expenditures	22.2%	3,058
Interest payments	24.8%	3,416

### 36 TAXATION

The individual income tax consists of taxes on compensation income (from employment), business income, and passive income (interests, dividends, royalties, and prizes). In 1998 compensation income tax rates were restructured into 6 bands with marginal rates ranging from 5% to 35%. Exemption levels are 20,000 pesos (about \$400) for individuals, and 32,000 pesos (about \$640) for married couples. In 2000, the business income tax rate was lowered from 33% to 32%. The tax rate on passive income is 30%. For resident foreign corporations, after-tax profits

remitted abroad are subject to a 15% tax, except for corporations registered with the Philippine Economic Zone Authority (PEZA), the Board of Investment (BOI), the Bases Conversion Development Authority, or operating in independent special economic zones (ecozones), all of which are eligible for special tax and customs incentives, exemptions and reductions designed to attract foreign, new, necessary and/or export-oriented foreign investment. The Omnibus Investment Code of 1987 lays out tax incentives administered by the BOI of the Department of Taxation and Development, and the annual Investment Priorities Plan (IPP) sets out the investment areas, national and regional, to which these incentives currently pertain. In 2002 the national list included export activities, industrial development and mining, agricultural/ fishery production and processing, logistics, drugs and medicine, engineered products, environmental projects, IT services, Infrastructure, mass housing projects, R and D activities, social service, tourism, patriotic and documentary motion pictures and new projects with a minimum cost of \$2 million. Special economic zones (SEZs) can be designated as export processing, free trade and/or information technology (IT) parks, each designation providing a schedule of tax holidays, exemptions from import duties on capital goods and raw material, and preferential income tax rates with more favorable treatment accorded pioneer industries over nonpioneer or expanding companies.

Taxes on transactions include a value-added tax (VAT) of 10%. For smaller businesses not registered with the VAT a percentage sales tax of 3% to 5% is applied, although higher for activities involving issues of public morality: cockpits are taxed 18%, caberets, 18% and jai-lai and racetracks, 30%.

Excise taxes are imposed on selected commodities such as alcoholic beverages, tobacco products, jewelry and petroleum products. In addition, the government levies a variety of other taxes, including mining and petroleum taxes, residence taxes, a head tax on immigrants above a certain age and staying beyond a certain period, document stamp taxes, donor (gift) taxes, estate taxes, and capital gains taxes. A document stamp tax is charged on stock certificates, proofs of indebtedness, proofs of ownership, etc, and normally amount to .75% to 1% of the par or face value of the certificate. A progressive schedule of donor taxes begins with gifts above P100,000 (about \$18,500), and lays out seven bands (2%, 4%, 6%, 8%, 10%, 12%, and 15%) with the top marginal rate applying to gifts above P10,000,000 (about \$186,520). The progressive estate tax begins at P200,000 (about \$37,000) and lays out five bands (5%, 8%, 11%, 15% and 20%) up to P10,000,000 (about \$186,520). The capital gains tax is 6% on real property; 5% on gains of P100,000 or less from the sale of stock not listed on the stock exchange, and 10% on gains over P100,000. Some cities, such as Manila, levy their own wholesale and retail sales taxes.

Government revenues in 2001 amounted to 14.8% of GDP, short of total expenditures and net lending for the year, which came to 19.1% of GDP, leaving a deficit of over 4% of GDP. The US State Department reports that the main factor underlying the deficit is inadequate revenue collections due to widespread tax evasion. Attempts by the Bureau of Internal Revenue to increase compliance have met with strong resistance.

### 37 CUSTOMS AND DUTIES

The Philippines, under its commitments to ASEAN, must accelerate its tariff reductions as part of in its AFTA Common Preferential Tariff (CEPT) Inclusion List. As of 2000, the Philippines was the furthest behind of any of the six original ASEAN members in implementing this plan. The Philippines, as a member of the Asia Pacific Economic Cooperation (APEC) forum, is also committed to the establishment of free trade in the region and is expected to eliminate intra-regional barriers by 2020. The government developed a separate plan in 1996 to

lower tariffs to no more than 3% on raw materials and 10% on finished products by January 2003, and a uniform 5% tariff rate by January 2004. There is also a value-added tax (VAT) of 10% on almost all imports and excise taxes are levied on alcohol and tobacco products, automobiles, and other luxury items.

### 38 FOREIGN INVESTMENT

Investments have been concentrated in manufactures for exports, utilities, mining, petroleum refining, and export-oriented agriculture, with accelerating interest in labor-intensive textiles, footwear, electronics, and other nontraditional export industries. Investment is affected by import controls, exchange controls, and equity controls that favor Filipino participation in foreign ventures. Attempts to liberalize the economy of the Philippines are fighting three centuries of entrenched interests. Filipino political science research points out the influence and effects of Spanish colonialism that delivered the control of politics and economics into the hands of a small number of families. In the name of nationalism these families legislated against foreign competition in the 1950s. Serious restructuring began in the wake of the Third World debt crisis and the turn to the IMF for assistance. The Omnibus Investments Code of 1987 generally limited foreign equity ownership to 40%, but allowed 100% foreign ownership in a "pioneer" priority industry identified in the annual Investment Priorities Plan (IPP). Special encouragement was given to pioneer manufacturing endeavors, export-oriented and labor-intensive industries, projects outside metropolitan Manila, and to joint ventures with a minimum of 60% Filipino capitalization. The structural reforms produced an initial recovery between 1986 and 1989, but this was arrested by the series of natural disasters in 1990–1991.

The Foreign Investment Act of 1991 (FIA) further liberalized the investment climate of the Philippines. The FIA permits 100% foreign ownership, without prior BOI approval, of companies engaged in any activity not included in the foreign investment negative list. The foreign investment negative list is comprised of three categories where foreign investment is fully or partially restricted by the constitution or by specific laws. In all three categories foreign ownership is restricted to between zero and 40%. Restriction on setting up export processing zones has also been considerably relaxed. The development of special economic zones began with the transformation of the former US military bases into enterprise zones, the Subic Bay Freeport Zone (SBFZ) and the Clark Special Economic Zone (CSEZ) according to the Bases Conversion Act of 1992.

The Export Development Act of 1994 signaled the government's conversion from an import substitution model of industrial development to an export-led growth model, more in line with its Asian tiger neighbors. The banking and insurance sectors were also significantly liberalized by legislation in 1994. Since 1948 the four existing foreign banks had not been allowed to open branches. Under a 1994 law, each was allowed to open up to six new branches, plus up to 10 new foreign full service banks could be licensed with up to six branches each. Insurance was opened to 100% foreign ownership but such that the higher the percent foreign ownership, the higher minimum capital requirements. Rural banking, however, continues to remain closed to foreign investment. The next year, in 1995, the Special Economic Zone Act, and separate laws for independent ecozones in Zoambanga and Cayagyu, established the framework for the current collection of four government-managed ecozones and over 40 private ecozones, all with liberalized incentives to attract foreign investment. Amendments to the FIA in 1996 enhanced the investor-friendly framework, albeit leaving the country vulnerable to the rapid divestments of the Asian financial crisis the next year. With recovery, the government embarked on further reforms aimed at attracting foreign investors.

In May 2000, the General Banking Law (GBL), in addition to strengthening the supervisory role of the Bangko Sentral ng Philippines (BSP), allowed 100% ownership of distressed banks. Also in 2000, the Estrada administration opened the retail trade and grain milling businesses to foreign investment.

There remain, however, major restrictions on foreign investments in the Philippines besides the natural hindrances that this most disaster-prone of countries is liable to, not the least of which is the complexity and detail of the investment regime. Under the FIA, the government is obliged to promulgate a Foreign Investment Negative List (FINL) consisting of a List A of foreign ownership limited by the constitution and specific laws, and a List B of foreign ownership limited for reasons of security, defense, risk to health and morals and protection of small- and medium-scale enterprises.

On 22 October 2002 President Arroyo issued the Fifth FINL. On List A, by its terms, no foreign equity was to be allowed in the mass media except recording, nor in any of the licensed professions including law, medicine, accounting, engineering, environmental planning, interior design, teaching, and architecture. Small scale retail and mining, private security, utilization of marine resources, the operation of cockpits, and the manufacture of fireworks, are off-limits to foreigners, as are, on another level, the manufacture and stockpiling of nuclear, biological, chemical and radiological weapons. Only a maximum of 20% ownership is allowed a private radio communications network; only up to 25% in employee recruitment industries, public works construction projects (though with important exceptions for infrastructure/development projects, and those built with foreign aid); only up to 30% in ad agencies; only up to 40% in natural resource extraction projects (though the president can authorize up to 100%), ownership of private lands, ownership of condominiums, educational institutions, public utilities, commercial deep sea fishing, government procurement contracts, adjustment companies, and rice and corn processing (with at least 60% divestment to Filipino citizens required after 30 years of operation); and only up to 60% in financial and investment houses. On the B list for 2002, foreign ownership is restricted to 40% in manufacture of firearms, ammunition, explosives, military ordnance, dangerous drugs, saunas, steam-baths, massage parlors, all forms of gambling, local businesses not engaged in exporting with paid-in capital of less than \$200,000 and local businesses that involve advanced technology or employ at least 50 persons with paid-in capital of less than \$100,000.

In January 2001, President Arroyo, a trained economist, launched a high profile campaign to attract foreign investment. Former president Fidel Ramos and four other senior government officials were appointed as envoys to promote trade and investment. Against strong nationalist opposition, her administration passed the Electric Power Industry Reform Act that requires the National Power Corporation (NPC) to privatize at least 70% of its generating assets by 2004. NPC's transmission assets were fully privatized and opened up to the maximum 40% foreign ownership allowed for public utilities. 2001, in fact, turned out to be a banner year for foreign investment in the Philippines, which increased 171% to \$3.4 billion (about \$2 billion FDI and \$1.4 billion portfolio investment), all the more remarkable because of the decline by 50% worldwide in foreign investments that year, and because of the Philippines' emergence as a front in the War of Terrorism, thanks to the Abu Sayyaf (Father or Bearer of the Sword) Group and its close links to al-Qaeda. The Philippines' newly deregulated and privatized energy sector was the main draw, the center piece being the Malampaya natural gas project, which was officially inaugurated on 16 October 2001 following the completion of its 312-mile (504-km) undersea pipeline and the conversion of three power plants in Batangas to natural gas usage.



### 39 ECONOMIC DEVELOPMENT

Beginning in 1972, the main tenets of the Marcos government's economic policies, as articulated through the National Economic Development Authority, included substantial development of infrastructure, particularly through the use of labor-intensive rather than capital-intensive (i.e., mechanized) methods, and a shift in export emphasis from raw materials to finished and semifinished commodities. The policies of the Aquino administration have stressed labor-intensive, small and medium-scale agricultural projects and extensive land reform. In addition, wealth believed to have been amassed by President Marcos was actively being pursued all over the world. Long-range planning has followed a series of economic plans, most of them covering five-year periods. The development program for 1967–70 aimed to increase the growth rate of per capita income from the 0.9% level in 1961–65 to 2.4%; to increase national income by 5.7% per year during the plan period, and to reduce the unemployment rate from 13% (1965) to 7.2% (1970). The government invested \$3.5 billion in integrating the traditional and modern sectors of the economy. Marcos's first long-range plan following the 1972 declaration of martial law was a four-year (1974–77) infrastructure development program calling for 35% to be expended on transportation, 33% on energy and power, 20% on water resources, 10% on education, health, and welfare, and 2% on telecommunications. A 1974–78 plan, announced in late 1975, envisioned energy as the major focus of the new plan, with 34% of expenditures, followed by transportation, 30%; water resources, 23%; social programs, 7%; and other sectors, 6%. The goals of the 1978–82 plan included an 8% annual growth in GNP, rural development, tax incentives for export-oriented industries, continued self-sufficiency in grain crops despite rapid population growth, and accelerated development of highways, irrigation, and other infrastructure. The 1983–87 plan called for an annual expansion of 6.2% in GNP, improvement of the rural economy and living standards, and amelioration of hunger.

Under the Aquino administration the goals of the 1987–92 plan were self-sufficiency in food production, decentralization of power and decision making, job creation, and rural development. Economic performance for real growth fell far short of plan targets by 25% or more. Structural changes to provide a better investment climate were carried out. The Foreign Investment Act of 1991 liberalized the environment for foreign investment. An executive order issued in July 1991 reduced the number of tariff levels over five years and reduced the maximum duty rate from 50% to 30%. Quantitative restrictions were removed from all but a few products. The foreign exchange market was fully deregulated in 1992.

A new six-year medium-term development plan for 1993–98 was presented by the government in May 1993. The plan stressed people empowerment and international competitiveness within the framework of sustainable development. To do this, the government planned to disperse industries to regions outside the metropolitan Manila area. The plan also called for technological upgrading of production sectors, poverty alleviation, and human/social development. Over the six year period, agriculture's share of GDP was expected to decline from 23% to 19% of GDP while industry's share was to increase from 34% to 39%. The Medium-Term Philippine Development Plan (MTPDP) for 1999 through 2004 focused on rural development, especially on the modernization of the agricultural sector. The MTPDP targeted agricultural growth from 2.6% to 3.4% during the plan's time-frame, as well as growth in the industrial and service sectors. The Philippines finished three years of IMF supervision in March 1998, only to be hit by the Asian financial crisis. Financial assistance continued in 1998 and 1999 through the Asian Development Bank, World Bank, and Japan's Overseas Economic Cooperation Development Fund.

### 40 SOCIAL DEVELOPMENT

The government social program includes the purchase and subdivision of big estates for resale on installment plans, the settlement of landless families in new areas, building of rural roads, schools, and medical clinics, and the distribution of relief supplies to the needy. Other programs directly geared to social change fall under the Ministry of Human Settlements and Community Development. Among these are nutrition programs for infants, the Bagong Lipunan Improvement of Sites and Services (BLISS) program for depressed areas, and the Livelihood Improvement Program (Kilusang Kabuhayan at Kaunlaran—KKK) designed to channel economic growth into projects—notably in agriculture, fishing, and cottage and light industries—capable of enhancing self-sufficiency at the village level.

The Social Security System (SSS) covers both temporary and permanent employees, including domestic workers. Membership for employers is compulsory. Benefits include compensation for confinement due to injury or illness, pensions for temporary incapacity, indemnities to families in case of death, old age pensions, and benefits to widows and orphans. Charges to cover the system are paid jointly by employers and employees and according to 23 wage classes. A medical care plan for employees provides hospital, surgical, medicinal, and medical-expense benefits to members and their dependents, as well as paid maternity leave.

A handful of women enjoy high prestige and visibility, but most women occupy traditional social roles and occupations. Women on average earn about half as much as men. Most, but not all, of the legal rights enjoyed by men are extended to women. Spousal abuse and violence remain serious concerns. The absence of divorce laws and lack of economic opportunity keep women in destructive relationships.

The government has enacted various measures in recent years to safeguard the rights of children. Child prostitution, while illegal, is widespread and has contributed to the growing sex-tourism industry. A new family court system strengthened safeguards against the sale of children.

Some human rights violations remain, including arbitrary arrest and detention, torture, and disappearances.

### 41 HEALTH

In the mid-1990s, there were 1,663 hospitals, 562 of which were operated by the government and 1,101 in the private sector. In the same period, there were 31,375 physicians, 1,523 dentists, 10,117 nurses, and 12,408 midwives. As of 1999, there were an estimated 1.2 physicians and 1.1 hospital beds per 1,000 people. Government-financed child health malnutrition and early education programs are already well established in the Philippines. These programs suffer from chronic underfunding in terms of inadequate equipment, numbers of field-level staff, and other operating expenses. Government hospitals had 46,388 beds and private hospitals had 35,309. In addition, there were 2,299 rural health units. As of 1999 total health care expenditure was estimated at 3.6% of GDP.

Pulmonary infections (tuberculosis, pneumonia, bronchitis) are prevalent. Malnutrition remains a health problem despite government assistance in the form of Nutripaks (consisting of indigenous foods such as mung beans and powdered shrimp) that are made available for infants, children, and pregnant women. In 2000, 32% of children under five years old were considered malnourished. Protein malnutrition, anemia, and vitamin A and iodine deficiencies are commonly found in children. The goiter rate was 6.9 per 100. Heart disease is the third most common cause of death in the Philippines.

During the 1980s, a nationwide primary health care program was implemented. As a result, community involvement in health services increased, the prevalence of communicable diseases

decreased, and the nutritional state of the population improved. Obesity and hypertension are more common in the cities. In 2000, 87% of the population had access to safe drinking water and 83% had adequate sanitation. Children up to one year of age were immunized in 1995 against tuberculosis, 91%; diphtheria, pertussis, and tetanus, 85%; polio, 86%; and measles, 96%. In 1999 the rate for both DPT and measles was 79%.

The infant mortality rate declined from 78.4 per 1,000 live births in 1972 to 31 in 2000. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.9 and 6 per 1,000 people. Maternal mortality was 170 per 100,000 live births in 1998. In 2000, 47% of married women (ages 15 to 49) were using contraception. Average life expectancy was 69 years in 2000.

As of 1999, the number of people living with HIV/AIDS was estimated at 28,000 and deaths from AIDS that year were estimated at 1,200. HIV prevalence was 0.07 per 100 adults. Tuberculosis incidence has been high. In the mid-1990s, 180,444 tuberculosis cases were reported per year. Incidence of TB was 314 per 100,000 people in 1999. In 1995, there were 525 cases of malaria per 100,000 people.

## 42 HOUSING

In 1981, government officials placed the need for new housing at over 1.1 million units. Tens of thousands of barrios are scattered throughout the Philippines, each consisting of a double row of small cottages strung out along a single road. Each cottage is generally built on stilts and has a thatched roof, veranda, and small yard. Construction is largely undertaken by the private sector, with the support of government agencies. The Ministry of Human Settlements (MHS), created in 1978, sets housing programs in motion. Its first major program was the Bagong Lipunon Improvement of Sites and Services (BLISS), which undertook 445 projects involving 6,712 units housing 40,272 people. As with many programs begun during the Marcos administration, the projects became ridden with scandal. More creditable was the Pag-IBIG fund, which was set up to promote savings for housing and provide easy-term housing loans, with contributions from individuals, banks, industries, and the government. By the end of 1985, P98 million in loans had been provided to 171,585 members. In 1985, membership contributions totaled P1.34 billion, and 1,451 housing loans were approved.

The Aquino administration offered tax exemptions to domestic corporations and partnerships with at least 300 employees that invest funds in housing. From 1984–87, an annual average of about 103,150 units were built by the private sector with minimal assistance from the government.

According to recent estimates, at least 90% of all housing units were detached houses. Owners occupied about 80% of all dwellings. In 2000, there were 15,278,808 households with an average of five people per household.

## 43 EDUCATION

Education is free and compulsory in the primary schools and is coeducational. In 1987, a bill to provide free public secondary education for all students was due for approval in Congress. English is the main medium of instruction, although Pilipino or the local vernacular is used for instruction in the lower primary grades. For the year 2000, adult illiteracy rates stood at 4.6% (males, 4.5%; females, 4.8%).

In 1998, 38,631 primary schools had an enrollment of 12,159,495 students, and secondary schools had 4,979,795 students. The pupil-teacher ratio at the primary level was estimated at 35 to 1 in 1999. As of 1999, only 51% of those eligible attended secondary school. The University of the Philippines, in Quezon City, with branches in major islands, is the leading institution of higher learning. In addition, there are some

50 other universities, including the University of Santo Tomás, founded in 1611 and run by the Dominican friars. In 1996, post-secondary institutions had a total enrollment of 2,017,972 students. Approximately 15.7% of central government expenditure was allocated to education in the latter part of the 1990s. As of 1999, public expenditure on education was estimated at 3.2% of GDP.

## 44 LIBRARIES AND MUSEUMS

The National Library in Manila has an estimated 1.2 million volumes. The Filipiniana and Asia Division contains over 100,000 Filipiniana books. Large libraries are in the universities, notably the University of the Philippines (948,000 volumes), the University of Santo Tomás (822,000), the University of the East (177,900), and the University of San Carlos. The International Rice Research Institute in Manila holds 160,000 volumes.

The National Museum in Manila collects and exhibits materials and conducts research in anthropology, ethnography, archaeology, botany, geology, history, and maps. The University of Santo Tomás Museum contains an art gallery and archaeology and anthropology collections. Three relatively new museums in Manila exhibit primarily art: Lopez Memorial Museum (1960) exhibits Filipino painters; Metropolitan Museum (1976) exhibits a variety of art forms; and the Philippines Presidential Museum (1986) exhibits fine and decorative arts. The Ateneo Art Museum in Quezon City features post-World War II Philippine paintings, and there is a Mabini Shrine in Tonauan, featuring relics of Apolinaria Mabina, a leader of Philippine independence.

## 45 MEDIA

There are four nationwide telephone networks, including the Philippine Long Distance Telephone Company, run mainly by the private sector, with services concentrated in urban areas. Overseas communications operate via satellites and undersea cables. In 2000 there were 3.1 million mainline telephones and 6.5 million cellular phones nationwide. Radio and television are operated by both government agencies and private concerns. Radio transmitting stations numbered 656 (366 AM and 290 FM) in 2002, and there were 75 television stations in 2000. In 2000, there were 161 radios and 144 television sets per 1,000 population. In 2001, there were about 33 Internet service providers serving 2 million subscribers.

In 2002 there were about 50 major daily newspapers, as compared with six during the Marcos era. The following are among the leading dailies published in metropolitan Manila (with estimated 2002 circulation):

	LANGUAGE	CIRCULATION
<i>People Tonight</i>	English/Filipino	500,000
<i>Abante</i>	English/Filipino	350,000
<i>Ang Filipino Ngayon</i>	Filipino	286,450
<i>Philippine Star</i>	English	275,000
<i>Manila Bulletin</i>	English	265,000
<i>Philippine Daily Inquirer</i>	English	250,000
<i>Tempo</i>	English/Filipino	230,000
<i>People's Journal</i>	English/Filipino	219,000
<i>Manila Times</i>	English	194,000
<i>Malaya</i>	English	175,000
<i>Balita</i>	Filipino	151,000

Under martial law, censorship of the press, radio, and television was imposed by the Marcos government. Many reporters, editors, and publishers were arrested during this period. Censorship was revoked under the Aquino administration. However, there are reports of threats, assaults, and killings of journalists who report on illegal activities such as gambling, logging, prostitution, and the drug trade among powerful individuals or groups, especially outside Manila.

## 46 ORGANIZATIONS

Between 1939 and 1949, some 1,370 cooperative associations with 260,134 members were organized. In general, however, consumer cooperatives were ineffectual before 1952. In that year, the first effective cooperative movement, the Agricultural Credit Cooperative Finance Administration, was established with an authorized capital of P100 million; its general aims were to promote organization of small farmers, assist in obtaining credit, establish orderly and systematic marketing, and upgrade agriculture. However, because of graft and corruption within the agency and other parts of the cooperative movement, the cooperative associations slowly died out.

The Philippine Chamber of Commerce and Industry has branches in metropolitan Manila and other important cities, and there are associations of producers and industrial firms in many areas. There are many associations of persons active in such fields as agriculture, architecture, art, biology, chemistry, economics, library service, literature, engineering, medicine, nutrition, veterinary service, and the press. The Philippine Academy is the oldest and best-known scholarly organization.

National youth organizations include the National Youth Parliament, League of Filipino Students, National Indigenous Youth, National Union of Students of the Philippines, Student Christian Federation of the Philippines, Young Christian Workers of The Philippines, Boy Scouts of the Philippines, and YMCA/YWCA. Kiwanis and Lion's Clubs have programs in the country. There are several national organizations focusing on women's rights, including the Philippine Association of University Women and the National Commission On The Role Of Filipino Women.

The Asian Volunteers' Network for Human Rights in the Philippines is based in Quezon City. International organizations with national chapters include CARE Philippines, Defence for Children International, Habitat for Humanity, Amnesty International, and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

The increase in tourism that followed the ouster of Ferdinand Marcos was dampened by the national disasters of the early 1990s. The tourism industry has since rebounded. Manila remains the chief tourist attraction. Other points of interest are the 2,000-year-old rice terraces north of Baguio; Vigan, the old Spanish capital; Cebu, the oldest city; numerous beaches and mountain wilderness areas; and homes formerly owned by the Marcoses. Basketball is the national sport, followed in popularity by baseball and soccer. Jai-alai is popular in Manila and Cebu. Cockfighting is legal and often televised. Each tourist must have a valid passport and an onward or return ticket; no visa is required for a stay of less than 21 days.

In 2000, 1,992,169 tourists arrived in the Philippines. Over 50% of tourists arrived from East Asia and the Pacific and North Americans accounted for close to 25%. Revenues from tourism totaled \$2.1 billion. There were 29,841 hotel rooms with 53,752 bed-places and a 59% occupancy rate.

According to 2003 US government estimates, the cost of staying in Manila is \$194 per day. Travel expenses are estimated at \$182 per day for Cebu City.

## 48 FAMOUS FILIPINOS

Filipinos have made their most important marks in the political arena. Foremost are José Rizal (1861–96), a distinguished novelist, poet, physician, linguist, statesman, and national hero; Andrés Bonifacio (1863–97), the leader of the secret Katipunan movement against Spain; and Emilio Aguinaldo y Famy (1869–1964), the commander of the revolutionary forces and president of the revolutionary First Philippine Republic (1899). Notable Filipinos of this century include Manuel Luis Quezon y Molina (1878–1944), the first Commonwealth president; Ramón

Magsaysay (1907–57), a distinguished leader in the struggle with the Hukbalahaps; and Carlos Peña Rómulo (1899–1985), a Pulitzer Prize-winning author and diplomat and the president of the fourth UN General Assembly. Ferdinand Edralin Marcos (1917–89), who won distinction as a guerrilla fighter during the Japanese occupation, was the dominant political figure in the Philippines from his first election to the presidency in November 1965 to his ouster in February 1986. His wife, Imelda Romualdez Marcos (b.1930), emerged as a powerful force within her husband's government during the 1970s. Leading critics of the Marcos government during the late 1970s and early 1980s were Benigno S. Aquino, Jr. (1933–83) and Jaime Sin (b.1928), who became the archbishop of Manila in 1974 and a cardinal in 1976. Maria Corazon Cojuangco Aquino (b.1933), the widow of Benigno, opposed Marcos for the presidency in February 1986 and took office when he went into exile in the same month.

Lorenzo Ruiz (fl.17th cent.) was canonized, along with 15 companion martyrs, as the first Filipino saint. Fernando M. Guerrero (1873–1929) was the greatest Philippine poet in Spanish. Two painters of note were Juan Luna y Novicio (1857–99) and Félix Resurrección Hidalgo y Padilla (1853–1913). Contemporary writers who have won recognition include Claro M. Recto (1890–1960), José García Villa (1914–97), and Carlos Bulosan (1914–56). José A. Estella (1870–1945) is the best-known Filipino composer. Filipino prizefighters have included two world champions, Pancho Villa (Francisco Guilledo, 1901–25) and Ceferino García (1910–81).

## 49 DEPENDENCIES

The Philippines has no territories or colonies.

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# QATAR

State of Qatar  
*Dawlat Qatar*

**CAPITAL:** Doha (Ad-Dawhah)

**FLAG:** Maroon with white serrated border at the hoist.

**ANTHEM:** *Qatar National Anthem.*

**MONETARY UNIT:** The Qatar riyal (QR) of 100 dirhams was introduced on 13 May 1973. There are coins of 1, 5, 10, 25, and 50 dirhams, and notes of 1, 5, 10, 50, 100, and 500 riyals. QR1 = \$0.2747 (or \$1 = QR3.64) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, although some British measures are still in use.

**HOLIDAYS:** Emir's Succession Day, 22 February; Independence Day, 3 September. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha', and Milad an-Nabi.

**TIME:** 3 PM = noon GMT.

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

Comprising an area of 11,437 sq km (4,416 sq mi), the State of Qatar consists of a peninsula projecting northward into the Persian Gulf, extending about 160 km (100 mi) N-S and 90 km (55 mi) E-W. Comparatively, the area occupied by Qatar is slightly smaller than the state of Connecticut. It is bordered on the S by the United Arab Emirates (UAE) and Sa'udi Arabia and has a total boundary length of 623 km (387 mi), of which 563 km (350 mi) is coastline. Qatar also includes a number of islands, of which the most important is Halul.

Qatar's capital city, Doha, is located on the Persian Gulf coast.

## <sup>2</sup>TOPOGRAPHY

The terrain is generally flat and sandy, rising gradually from the east to a central limestone plateau. About 56 km (35 mi) long, the Dukhan anticline rises from the west coast as a chain of hills of up to 100 m (325 ft) in height. Some low cliffs mark the northern end of the east coast. The presence of extensive salt flats at the base of the peninsula supports the theory that Qatar was once an island.

## <sup>3</sup>CLIMATE

Qatar's summer, from May to October, is extremely hot. Mean temperatures in June are 42°C (108°F), dropping to 15°C (59°F) in winter. Humidity is high along the coast. Rainfall is minimal.

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

Vegetation is generally sparse and typical of Gulf desert regions. The gazelle, once common in Qatar, is now rarely seen. Jerboas (desert rats) and an occasional fox are found. Birds include flamingo, cormorant, osprey, kestrel, plover, lark, and other migrants. Reptiles include monitors, other lizards, and land snakes. Life in the seas around Qatar is considerable and varied, including prawn, king mackerel, shark, grouper, and swordfish.

## <sup>5</sup>ENVIRONMENT

Environmental responsibility is vested in the Ministry of Industry and Agriculture. An Environmental Protection Committee was created in 1984 to monitor environmental problems. Conservation of oil supplies, preservation of the natural wildlife heritage, and increasing the water supply through desalination are high on Qatar's environmental priority list. Air, water, and land pollution are also significant environmental issues in Qatar. In addition to smog and acid rain, the nation has been affected by the air pollution generated during the Persian Gulf War. Pollution from the oil industry poses a threat to the nation's water. The nation's soils have been damaged by pesticides and fertilizers, and its agricultural land is in danger of desertification. Endangered species include the hawksbill turtle, green sea turtle, and white oryx.

## <sup>6</sup>POPULATION

The population of Qatar in 2003 was estimated by the United Nations at 610,000, which placed it as number 158 in population among the 193 nations of the world. In that year approximately 1% of the population was over 65 years of age, with another 26% of the population under 15 years of age. There were 173 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.54%, with the projected population for the year 2015 at 711,000. The population density in 2002 was 56 per sq km (146 per sq mi). However, much of the country is uninhabited desert.

It was estimated by the Population Reference Bureau that 93% of the population lived in urban areas in 2001. The capital city, Doha, had a population of 391,000 in that year. Two other major towns have grown up around the oil industry: Dukhan, on the west coast, and the port of Umm Sa'id, south of Doha. According to the United Nations, the urban population growth rate for 2000–2005 was 1.5%.

## **7**MIGRATION

In 1993, the number of immigrant workers was about 85,000, including Pakistanis, Indians, and Iranians. In 2000 there were 409,000 non-citizen residents in Qatar, amounting to more than two-thirds of the population. In that year the net migration rate was 3.7 migrants per 1,000 population. The government views the migration levels as satisfactory.

## **8**ETHNIC GROUPS

In 1999, Gulf and Palestinian Arabs constituted 40% of the population, Pakistanis 18%, Indians 18%, Iranians 10%, and others 14%. The indigenous population (about 100,000) descends from Bedouin tribes which migrated to Qatar during the 1700s.

## **9**LANGUAGES

Arabic is the national language, but English is widely spoken, and Farsi is used by smaller groups in Doha.

## **10**RELIGIONS

Islam is the official religion of Qatar and is practiced by the great majority (95%) of the people. The Qataris are mainly of the Wahhabi sect of the Hanbali school of Islam. There are also small populations of Christians, Jews, Hindus, Bahais, and other faiths; however, it they are mainly foreigners. The constitution does not protect freedom of religion. Public worship of non-Muslim faiths is prohibited. Private worship is permitted for Christians and Jews (known in Islam as "People of the Book").

## **11**TRANSPORTATION

The modern road system dates from 1967. As of 2002, there were 1,230 km (764 mi) of highways, of which 1,107 km (688 mi) were paved. Qatar has overland truck routes from Europe through Sa'udi Arabia via the Trans-Arabia Highway and road links with the United Arab Emirates and Oman. In 2000, there were 101,700 passenger cars and 71,000 commercial vehicles registered. Qatar has no railways or waterways. In 2001, there were 4 airports, 2 with paved runways. Doha International Airport is served by twenty international airlines. In 2001 1,134,600 passengers were carried on scheduled domestic and international flights. Qatar maintains modern deepwater ports at Doha and Umm Sa'id, where a tanker terminal is located. Qatar's National Navigation and Transport Co. enjoys a monopoly on arriving shipments. In 2002, the merchant fleet consisted of 25 vessels with 679,0181 GRT.

## **12**HISTORY

Archaeological evidence shows that human habitation existed in Qatar for many centuries prior to the modern age; however, little is known of Qatar's history until the 18th century. The al-Thani family, forebears of the present rulers, arrived in Qatar then from what is now Sa'udi Arabia. During the same century, the al-Khalifah family, who currently rule Bahrain, arrived from Kuwait.

In 1868, Britain intervened on behalf of the Qatari nobles and negotiated the Perpetual Maritime Truce, signed by Muhammad bin Thani, an accord that terminated the Bahraini claim to Qatar in exchange for a tribute payment. In 1872, however, Qatar fell under Ottoman occupation, and Jasim bin Muhammad bin Thani became Turkish deputy-governor of Qatar. Turkish dominion prevailed until the outbreak of World War I and the subsequent withdrawal of the Turks from the Arabian Peninsula. Qatar thereupon established its independence and, in 1916, Sheikh 'Abdallah bin Jasim al-Thani signed a treaty with the United Kingdom granting British protection in exchange for a central role for the United Kingdom in Qatar's foreign affairs. A 1934 treaty further strengthened this relationship. Commercial

quantities of high-quality oil were discovered at Dukhan in 1940, but full-scale exploitation did not begin until 1949.

In 1960, Sheikh Ahmad bin 'Ali al-Thani succeeded his father, who had become too old to rule effectively. Social and economic development during the subsequent decade was disappointing, especially in view of the increasing availability of oil revenues. In January 1968, the United Kingdom announced its intention to withdraw its forces from the Persian Gulf States by the end of 1971. Discussions took place among the Trucial States, Bahrain, and Qatar, with a view to forming a federation. The Trucial States formed the United Arab Emirates, but Qatar could not agree to the terms of the union. On 3 September 1971, the independent State of Qatar was declared. A new treaty of friendship and cooperation was signed with the United Kingdom, and Qatar was soon admitted to membership in the Arab League and the UN.

On 22 February 1972, Sheikh Khalifa bin Hamad al-Thani, the deputy emir and prime minister, seized power in a peaceful coup, deposing his cousin, Sheikh Ahmad. Since his accession, Sheikh Khalifa pursued a vigorous program of economic and social reforms, including the transfer of royal income to the state. On 31 May 1977, Sheikh Khalifa appointed Sheikh Hamad bin Khalifa al-Thani, his son, as heir apparent and minister of defense.

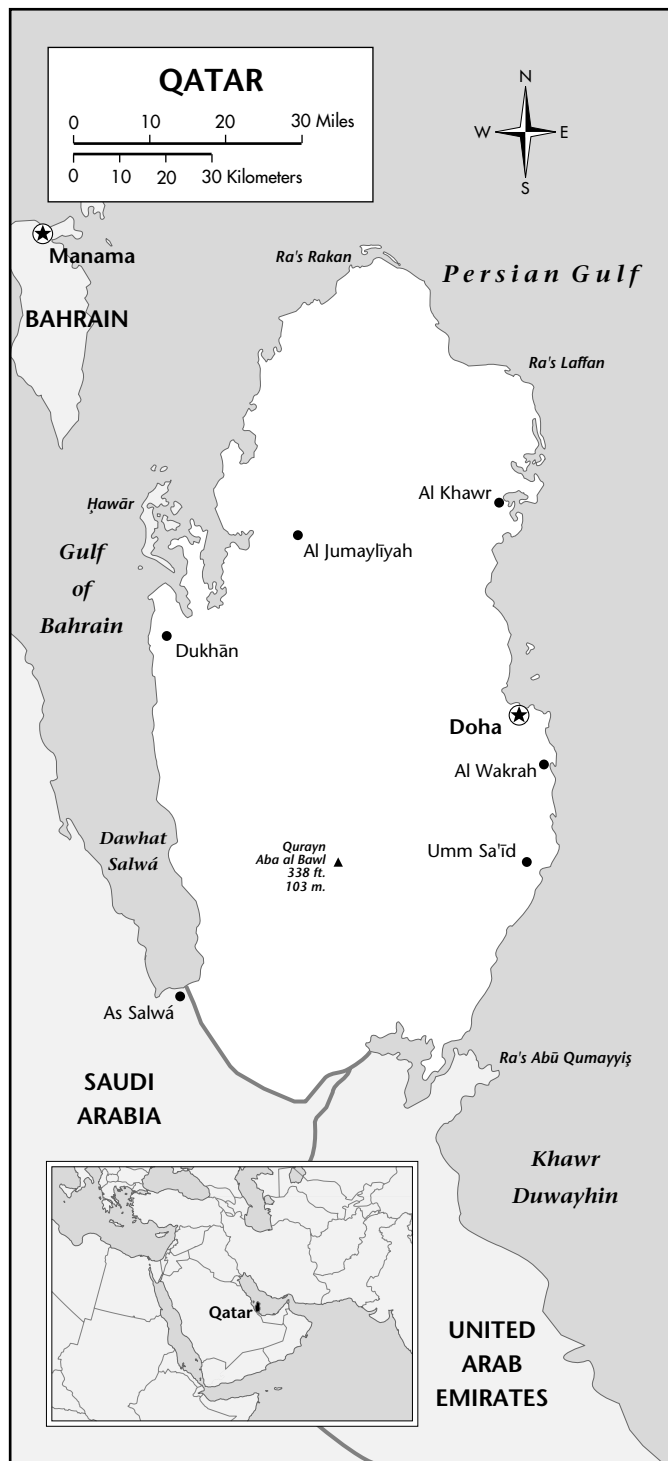
In 1981, Qatar, along with the other Persian Gulf states of Bahrain, Kuwait, Oman, Sa'udi Arabia, and the United Arab Emirates, established the Gulf Cooperation Council (GCC). The GCC attempted to mediate the war between Iran and Iraq, which had erupted in September 1980, but at the same time gave support to Iraq. Qatar's boundary disputes with Bahrain disrupted relations between the two countries in the mid-1980s. In 1991, they agreed to refer their dispute over the Hawar Islands to the International Court of Justice at The Hague. In 1992, there was a minor clash between Qatari and Sa'udi troops over a disputed border. That quarrel was resolved with a boundary agreement signed in Cairo in December 1992.

Qatari forces, although small in size, are active in the collective defense of the GCC and played a helpful role on the allied side in the Gulf War against Iraq.

In 1995, Sheikh Hamad seized power from his father amid a turbulent and secretive attempted coup in February of that year by unknown forces. Sheikh Khalifa, the aging ruler, had spent much of his time before being ousted sailing the Mediterranean on the royal yacht. Also a problem was the aging emir's eccentric method of funding the government, which was to siphon off half of the revenue generated from the country's oil into his personal bank accounts, and pay for government services from those funds. In the late 1980s and early 1990s, the emir felt less inclined to withdraw money than to deposit, and the resulting revenue drain was crippling the economy. When Sheikh Hamad took control of the government, while his father was away on business, the now former emir froze his personal bank accounts, which held, essentially, Qatar's treasury. Estimates of Sheikh Khalifa's personal accounts range from \$4-\$30 billion.

In 1996, the former emir set up a government in exile in the United Arab Emirates. The hostile transfer of power led to friction among the normally contention-free members of the GCC. Also that year, Sheikh Hamad issued writs demanding that his father turn over control of his assets to the state. Initially, the emir had resigned himself to the loss of revenue, but severe budget constraints caused him to cut government spending and, in order to develop the huge off-shore natural gas reserves the country will rely on in the future, huge infrastructure expenses needed to be made.

In 1999, the former emir still claimed to be the legitimate ruler of Qatar, and his allies within the ruling elite were still a source of problems for Sheikh Hamad. However, Sheikh Hamad has



LOCATION: 26°23' to 24°31' N; 50°43' to 51°41' E. BOUNDARY LENGTHS: Persian Gulf coastline, 563 kilometers (350 miles); United Arab Emirates, 45 kilometers (28 miles); Sa'udi Arabia, 60 kilometers (38 miles). TERRITORIAL SEA LIMIT: 3 miles.

continued to rule and implement change in spite of outside threats.

In 1999, Qatar supported the Organization of Oil Exporting Countries (OPEC) efforts to increase oil prices by cutting back crude oil production from March 1999 to April 2000. Qatar was also practicing fiscal discipline and creating low-cost efficiencies.

The government was developing a tariff structure with a monthly ceiling on water and electricity services, previously free of charge. In addition, plans were in the works to implement a foreign investment code in agriculture, industry, tourism, and education ventures.

Perhaps most striking, Sheikh Hamad was encouraging political openness. In 1999, women voted and ran for office in municipal elections for the first time. A constitutional committee was charged with drawing up a permanent constitution under which Qatar would have an elected parliament. Political openness was even extended to the media as Qatar's satellite news channel, Al Jazeera, broke a previous taboo with an open discussion and criticism of the state funding of the ruling family.

On 16 March 2001, the International Court of Justice (ICJ) resolved a territorial dispute between Bahrain and Qatar over the potential oil-and gas-rich Hawar Islands. The islands were controlled by Bahrain since the 1930s but were claimed by Qatar. Bahrain also claimed the town of Zubarah, which is on the mainland of Qatar. The dispute has lasted for decades and almost brought the two nations to the brink of war in 1986. In its judgment, the ICJ drew a single maritime boundary in the Gulf of Bahrain, delineating Bahrain and Qatar's territorial waters and sovereignty over the disputed islands within. The ICJ awarded Bahrain the largest disputed islands, the Hawar Islands, and Qit'at Jaradah Island. Qatar was given sovereignty over Janan Island and the low-tide elevation of Fasht ad Dibal. The Court reaffirmed Qatari sovereignty over the Zubarah Strip.

During 2002 and into 2003, Qatar, along with the other countries of the Persian Gulf, were confronted with the situation of a potential US-led war with Iraq. On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and WMD weapons capabilities, to allow the immediate return of International Atomic Energy Agency (IAEA) and UN weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. If Iraq was found to be in "material breach" of the resolution, "serious consequences" were to result. The United States and the United Kingdom began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. As of 1 February, there were approximately 3,500 US military personnel in Qatar. In December 2002, a computer-assisted exercise entitled "Internal Look" was carried out in Qatar, involving approximately 1,000 military planners and a mobile command center, which would eventually be staffed by 1,600 US and UK troops. As of March 2003, an aerial command-and-control center was being constructed at Al Udeid, in the event that US forces could not use their control center in Sa'udi Arabia. The Al Udeid air base has the longest runway in the Gulf region (approximately 5,000 m/15,000 ft), and can accommodate nearly 100 aircraft. Operating at Al Udeid in early 2003 was air-to-air refueling of tanker aircraft in support of US-led forces in Afghanistan and to patrol Iraq's southern no-fly zone in the aftermath of the 1991 Persian Gulf War. In December 2002, the United States and Qatar signed a bilateral defense agreement that US Secretary of Defense Donald Rumsfeld stated was not connected to Iraq.

However, Qatar has said it would not act in a conflict with Iraq without UN approval. At an Arab League summit held at Sharm el-Sheik, Egypt, on 1 March, sharp divisions between Arab leaders on the Iraq situation emerged, particularly between Libya and Sa'udi Arabia. However, the leaders issued a declaration expressing "complete rejection of any aggression on Iraq," and called for continuing UN weapons inspections. It also called upon Iraq to disarm itself of WMD and the missiles needed to deliver them. At the summit, some leaders argued war was inevitable and that the countries of the region should prepare for its aftermath; some argued that war could be avoided if Iraq were to comply

with weapons inspections; and a third group argued that the summit should issue an unequivocal anti-war declaration.

### 13 GOVERNMENT

Qatar is a monarchy ruled by an emir. In 1970, in anticipation of independence, Qatar promulgated a Basic Law, including a bill of rights, that provides for a 9-member executive Council of Ministers (cabinet) and a 30-member legislative Advisory Council, whose members serve three-year terms. The Council of Ministers, appointed by the emir and led by a prime minister (the head of government), formulates public policy and directs the ministries. Sheikh Khalifa served as acting prime minister from the time of the 1972 coup until ousted by his son, Sheikh Hamad bin Khalifa al-Thani, in 1995. Sheikh Khalifa formed a government in exile in the United Arab Emirates. The ruling al-Thani family continues to hold a majority of cabinet positions and most of the key posts.

In March 1999 elections to a 29-member municipal council were held in which women were allowed to vote and run for office. That July, Sheikh Hamad issued a decree forming a committee to draft a permanent constitution, and has promised a future fully elected parliament.

### 14 POLITICAL PARTIES

There are no organized political parties. Security measures against dissidents are firm and efficient. There is no serious opposition movement. Citizens with grievances may appeal directly to the emir.

### 15 LOCAL GOVERNMENT

Municipal councils have been established in Doha, Khor, Ash-Shamal, and several other towns. The councils manage their own planning and development programs, but they remain directly accountable to the Ministry of Municipal Affairs.

### 16 JUDICIAL SYSTEM

The legal system is based on the *Shari'ah* (canonical Muslim law). The Basic Law of 1970, however, provided for the creation of an independent judiciary, including the court of appeal, which has final jurisdiction in civil and criminal matters; the higher criminal court, which judges major criminal cases; the lower criminal court; the civil court; and the labor court, which judges claims involving employees and their employers. The *Shari'ah* court has jurisdiction in family and criminal cases, and may also assume jurisdiction in commercial or civil cases if requested by a Muslim litigant. Muslims and non-Muslims may request the *Shari'ah* courts to assume jurisdiction in family, commercial, and civil cases.

The losing party in all types of courts may submit their cases to an appeals court. In cases tried by the *Shari'ah* Court, however, it is possible that the same judge will hear both the original case and the appeal.

The judiciary is attached to three different ministries. The civil courts are subordinate to the Justice Ministry. Whereas *Shari'ah* courts fall under the Ministry of Endowments and Islamic Affairs, the prosecutors fall under the Ministry of the Interior.

### 17 ARMED FORCES

The Qatar armed forces consists of 8,500 army, 1,800 naval, and 2,100 air force personnel. Military equipment includes 18 combat aircraft, 19 armed helicopters, and 7 missile-equipped coastal patrol boats and 35 main battle tanks. The army includes a Royal Guard regiment. The US army has approximately 100 troops in Qatar. Defense spending was \$940 million in 2000–01, or 10% of GDP.

## 18 INTERNATIONAL COOPERATION

Following independence, Qatar joined both the UN (21 September 1971) and the Arab League. Qatar participates in ESCWA and all the nonregional specialized agencies except IDA and IFC; it is also a member of the WTO. Qatar belongs to OPEC and OAPEC, as well as to G-77 and the GCC.

## 19 ECONOMY

Until recent decades, the Qatar peninsula was an undeveloped, impoverished area, with a scant living provided by the traditional occupations of pearl diving, fishing, and nomadic herding. In 1940, a major oil discovery was made at Dukhan and, in the ensuing decades, oil has been the dominant factor in the Qatari economy. Oil revenues have provided Qataris with per capita incomes comparable those of the industrialized nations of the West. In 1996, oil revenues accounted for more than 30% of GDP, 70% of export earnings, and 66% of government revenues.

Other economic activities remain limited. Agriculture has received considerable attention in recent years, but most food is still imported. The state encourages free enterprise, provided it does not conflict with the public interest. Real property, however, may be acquired only by Qatari nationals. The discovery of a vast field of natural gas unassociated with Qatar's oil fields promises to add a new dimension to the economy. In 1987, work on the first phase of the North Gas Field project Phase I, with a production capacity of 800 million cubic feet per day, began and was inaugurated in 1991. While Phase I production is meant for domestic consumption, the Phase II development envisages the production of at least an additional 800 million cubic feet per day for export to Japan as liquefied natural gas. The first shipments to Japan began in January 1997. The project was heavily financed by Japanese banks under terms that will limit Qatar's revenues for the next decade. Qatar has 300 trillion cubic feet of proven natural gas reserves; third in the world behind Russia and Iran. Production of natural gas reached 690 billion cubic feet in 1998.

The economy performed sluggishly during the first half of the 1990s but recovered somewhat in 1995 because of a surge in international oil prices and slightly higher rates of oil production. It is estimated that GDP grew by 1.9% in 1995. The government that took over after the coup of 1995 implemented economic reforms that updated the financial sector. In 1998, a temporary drop in international oil prices brought GDP down by 9.2%. However, the recovery of oil prices in the second half of 1999 brought a jump in GDP of 18.9% for the year, and 34.9% in 2000. Per capita income rose from \$20,038 in 1998 to \$24,000 in 2001. Inflation at 2.9% in 1998, dropped to 2.2% in 1999 and -1.0% in 2000.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Qatar's gross domestic product (GDP) was estimated at \$16.3 billion. The per capita GDP was estimated at \$21,200. The annual growth rate of GDP was estimated at 5.6%. The average inflation rate in 2001 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 1% of GDP, industry 49%, and services 50%.

Foreign aid receipts amounted to about \$2 per capita. Approximately 22% of household consumption was spent on food, 11% on fuel, 5% on health care, and 13% on education. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.



## 21 LABOR

About 70% of the economically active population is engaged in industry (largely oil-related), commerce, and services. Of the remainder, about 10% work in the agricultural sector and 20% in government. The workforce totaled 280,122, or 53.7% of the population, in 1998. No labor may be recruited without the approval of the Department of Labor, and vacancies must be offered first to Qataris, second to Arabs, and only then to foreigners, who comprised 85% of the workforce in 1992. In 2001, the unemployment rate was 2.7%.

Trade unions are prohibited, and strikes are permitted only after the case has been presented to the Labor Department of the Ministry of Civil Service and an agreement cannot be reached. Government employees, security forces employees, domestic workers, and members of an employer's family are not permitted to strike, nor are workers in public health or security if such a strike would harm the public or lead to property damage. Workers are prohibited from engaging in collective bargaining.

The standard workweek is 48 hours, although most government offices set a 36 hour week. Children as young as 15 may work with parental permission, and some young non-Qataris work in family businesses. However, youths of any nationality do not frequently work in Qatar. While the labor law gives the Amir the authority to set a minimum wage, he has not chosen to do so. Enforcement of safety standards is lax.

## 22 AGRICULTURE

Agriculture is constrained by lack of adequate fertile soil, rainfall, and underground water sources; the aquifers which supply the crops are expected to soon run dry. Recently, treated waste water has been used for irrigation. In 1998, only 1.5% (17,000 hectares/42,000 acres) of the total land area was under cultivation. In 1999, 23,000 tons of dates were produced, mostly for local consumption. Rice is also grown for the domestic market.

## 23 ANIMAL HUSBANDRY

According to 2001 estimates, Qatar had 150,000 sheep, 140,000 goats, 50,000 camels, 14,500 head of cattle, and four million chickens. Output in 2001 included about 18,000 tons of mutton and 4,000 tons of poultry. Dairy and poultry production meets about 25% of domestic needs. Public, private, and foreign financing have all been used recently to establish or expand dairy and poultry farming.

## 24 FISHING

The Qatar National Fishing Co., formed as a Qatar-UK partnership in 1966, was wholly taken over by Qatar in 1980 and has its own shrimp fishing fleet and processing facilities. Fish and shellfish production in 2000 totaled 7,142 tons (up from 4,207 tons in 1999).

Pearl fishing, once important in Qatar, has virtually disappeared. The principal fishing facilities at Doha and Al Khor have been improved. Overfishing and pollution have adversely affected catches, and there is further concern that oil pollution from the Gulf War may worsen conditions even further.

## 25 FORESTRY

There are no forests in Qatar. Imports of forestry products totaled \$14.6 million in 2000.

## 26 MINING

Much of Qatar's economy was based on the production of natural gas, petrochemicals, crude oil, and refined petroleum products. Among other exploitable minerals, production in 2000 was: limestone, 900,000 tons; hydraulic cement, 1.05 million

tons; ammonia, 1.1 million tons; and urea, 748,100 tons. The country also produced clays, gypsum, and sand and gravel.

## 27 ENERGY AND POWER

Qatar's proven recoverable oil reserves, estimated at 15.2 billion barrels in early 2002, dominate the country's economy. For reasons of financial stability and resource conservation, the decision was made in the mid-1970s to limit oil production to no more than 500,000 barrels a day. Production has fluctuated but gradually risen from 310,000 barrels per day in 1983 to 485,000 in 1992. Production in the first half of 2002 amounted to 807,777 barrels per day. Qatar's largest producing oil field is the onshore Dukhan field on the western coast of the peninsula. Offshore production accounts for about 40% of the total, mainly from three of Qatar's six offshore fields about 50 miles from the coast.

Total control over oil production and marketing was assumed by the government in early 1977. The Qatar General Petroleum Corp. (QGPC) controls all oil and gas extraction and production and also acts as an umbrella organization for a number of joint ventures. The National Oil Distribution Company controls refining and distribution. The state-owned oil and gas sector also includes subsidiaries that handle petrochemical production, fertilizer production, and liquefied natural gas. Qatar's gas reserves, the world's third largest, are estimated at 14.4 trillion cu m, representing more than 5% of the world's known reserves; output was about 29 billion cu m in 2000. Nearly all of Qatar's natural gas reserves are in the North Dome Field, considered to be the largest natural gas field (unassociated with oil) in the world.

Qatar's power plants are mostly gas-fired. Electrical capacity was 1,475 MW in 2001, as compared with 70 MW in 1970. Power production in 2000 reached 8.8 billion kWh, of which 100% was from fossil fuels. There are three main electrical power stations, at Ra's Abu Aboud, Al-Arish, and Ra's Abu Fantas. The Ra's Abu Fantas facility, which also includes a water desalination plant, is the largest and newest. A new 380 MW generation unit was added there in June 2002.

## 28 INDUSTRY

Industry in Qatar is restricted by the small size of the population and the paucity of resources other than petroleum and natural gas. Qatar has nevertheless launched an ambitious industrialization plan aimed at diversifying the sources of national income and creating an economy that is not totally dependent on oil revenues. State enterprises include the Qatar Iron and Steel Co. (70% government-owned); the Qatar Fertilizer Co.—QAFCO (70% government-owned, underwent its fourth expansion in 2002); the Qatar National Cement Co. (43% government-owned and no foreign investment); Qatar Petrochemical Company—QAPCO (80% government-owned, produces ethylene, polyethylene, and sulfur); Qatar Liquefied Gas Company—QatarGas (65% owned by Qatar Petroleum); Ras Laffan Liquefied Natural Gas—Ras Gas (70% owned by Qatar Petroleum, began operations in 1999 and expanded in 2001, producing about 10 million tons per year); Qatar Chemicals Company—Q-Chem (51% owned by Qatar Petroleum, established 1997 with expansion into Q-Chem II in 2002); Qatar Fuel Additive Company—QAFAC (50% owned by Qatar Petroleum, commissioned in 1999 to produce 830,000 metric tons per year of methanol and 610,000 metric tons per year of methyl tertiary butyl ether); Qatar Vinyl Company—QVC (25% owned by Qatar Petroleum and 31.9% by QAPCO). It is estimated that industry accounted for almost 10.6% of GDP in 2000, up from 7.5% in 1997.

## 29 SCIENCE AND TECHNOLOGY

The Scientific and Applied Research Center, within the University of Qatar at Doha, coordinates the nation's technological development and seeks to develop ways to utilize the country's natural resources. A soil research station is located at Rodet al-Farassa. The Qatar National Museum, founded at Doha in 1975, has an aquarium and botanical garden, and exhibits dealing with geology, botany, and zoology. In 1986, total expenditures on research and development amounted to 6.7 million riyals; 61 technicians and 229 scientists and engineers were engaged in research and development.

## 30 DOMESTIC TRADE

As elsewhere in the Gulf, wholesale and retail operations in Qatar are frequently combined in the same enterprise. There are a relatively small number of large companies that control most of the retail market, particularly in food imports and distribution. Consumer cooperative societies have also been established for food retail sales. Local laws require that commercial agents be of Qatari nationality; however, a 2000 law has opened up more possibilities for foreign investors. Consumer advertising can be displayed in motion picture theaters, in the press, and on billboards. Radio and television services do not accept advertising.

Normal business hours are from 7:30 AM to 12 noon and from 3:30 to 6 PM. Government offices are open from 7 AM to 2 PM, Saturday through Wednesday. Banks are open from 8 to 12:30 AM. Private sector business hours are usually 8 AM to 12:30 PM and 4 PM to 7:30 PM, Saturday through Thursday. Most businesses are closed on Friday.

## 31 FOREIGN TRADE

Qatar's most important commodity exports are crude petroleum (56%), natural and manufactured gas (30%), and refined petroleum products (2.1%). Other exports include manufactured polymers (3.2%), steel (2.1%), and fertilizers (1.9%).

In 1999, imports were distributed among the following categories:

Consumer goods	17.6%
Food	14.0%
Fuels	0.6%
Industrial supplies	27.1%
Machinery	23.5%
Transportation	17.0%
Other	0.2%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	5,216	358	4,858
Korea	1,952	174	1,778
Singapore	824	14	810
United Arab Emirates	513	225	288
United States	361	335	26
China (inc. Hong Kong)	332	97	235
Thailand	249	35	214
Sa'udi Arabia	115	183	-68
United Kingdom	17	253	-236
Germany	n.a.	266	n.a.
France	n.a.	178	n.a.

## 32 BALANCE OF PAYMENTS

In recent years, Qatar has had a persistent trade surplus, while maintaining an overall balance of payments deficit. The gap in the balance of payments is largely due to massive imports in services and person transfers, and somewhat to outflowing capital transfers.

The Qatar Central Bank reports that in 1998 there was a surplus in the balance of goods of \$358 million, a substantial decline from the surplus of \$897 million posted in 1997. The central bank's numbers were based on an exchange rate of QR3.64 per \$1. The decline was the result of a reduced rate of exports and an increased rate of imports. Although oil exports grew in volume, lower prices for oil resulted in less revenue. More than offsetting the surplus on goods, the balance on services posted a record deficit of \$2.4 billion. Capital and private transfers, as represented in state borrowings from foreign sources and official and private investments in foreign markets recorded a surplus of \$1.34 billion, a 13% increase over 1997. Overall, the 1998 balance of payments registered a deficit of \$736 million. This deficit was largely due to increased borrowing necessary to expand the country's liquefied natural gas (LNG) industry. It is estimated that these deficits will continue for the next several years until revenues from LNG exports from the North Field begin to impact the economy.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Qatar's exports was \$11 billion while imports totaled \$3.5 billion resulting in a trade surplus of \$7.5 billion.

## 33 BANKING AND SECURITIES

Qatar's monetary and banking system is headed by the Qatar Central Bank (QCB). The bank supervises all banks and money exchange companies in Qatar. In 1993, the QCB was established to assume the functions of the Qatar Monetary Agency. The bank was set up in part to make it independent of the Ministry of Finance and Petroleum. The QCB is responsible for assuring that all banks operating in Qatar comply with international standards and auditing procedures. Total assets of all banks operating in Qatar was estimated at \$13.8 billion in 2000. As of 1999, there were 14 banks operating in Qatar: seven national, two Arab, and six foreign. There were also 10 money exchange companies. The Qatar National Bank is the largest with total assets exceeding \$5 billion.

The Qatari Riyal was fixed to the US dollar at a rate of US\$1=QR3.65 in June 1980, and has remained at that rate to date. However, for practical purposes the rate is US\$1=QR3.639. Because the exchange rate is fixed, Qatar cannot employ monetary policy for domestic price regulation and employment objectives. 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 \$7.9 billion.

There is no stock exchange. Shares in Qatari public companies are traded through banks.

## 34 INSURANCE

In 1999, there were the eleven insurance companies represented in Qatar, seven of which were foreign owned. The Qatar National Insurance Co. has the largest market share and manages the government's insurance business. In 1999, 1.3% of Qatar's Gross Domestic Product (GDP) was insurance premiums.

## 35 PUBLIC FINANCE

Revenues from oil and gas constitute about 90% of total government income. From 1986 to 1990, the government ran a deficit due to the drop in oil revenues from fallen prices. These deficits often have resulted in the procrastination of payments by the government, which creates a financial difficulty for many private companies.

The US Central Intelligence Agency (CIA) estimates that in 2001/02 Qatar's central government took in revenues of approximately \$5 billion and had expenditures of \$4.8 billion including capital expenditures of \$900 million. Overall, the

government registered a surplus of approximately \$200 million. External debt totaled \$13.1 billion.

### 36 TAXATION

The only tax levied in Qatar (besides customs duties) is an income and profits tax on corporations. The corporate income tax rate ranges from 5% to a maximum of 35% of net profits. There is no other personal or corporate tax liability in Qatar for either foreigners or nationals.

### 37 CUSTOMS AND DUTIES

Import licenses are not required except for liquor (consumption of which is limited to non-Muslims). Customs duties are 4% on almost all commodities except for alcoholic beverages (100%), tobacco and cigarettes (150%), and records and phonographs (15%). A 20% protective tariff is imposed on cement, steel bars, and other products that compete with goods produced in Qatar. The importing of pork and any goods from Israel or South Africa is forbidden. Qatar is a member of the World Trade Organization and the Gulf Cooperation Council, through which it signed a free trade agreement that provides duty-free access to goods from GCC member nations.

### 38 FOREIGN INVESTMENT

The Qatar government encourages overseas investment in Qatar conditioned on a majority Qatari interest. For example, the Qatar Petrochemical Company is jointly owned by the government of Qatar (80%), the French company Cdf Chimie Atochem (10%), and the Italian company Enichem (10%). Qatar Liquefied Gas Company, which began production in 1996, is a venture between the state-owned Qatar General Petroleum Corporation (QGPC) with 65% and four other foreign firms including the US firm Mobil Oil with a 10% stake. In 1992 the firm signed a sales and purchase Agreement with the Chubu Electric Power Company in Japan for the sale of liquefied natural gas (LNG) per year for a period of 25 years. Another US company, Phillips Corporation signed an agreement with QGPC in May 1977 for establishing a new \$750 million petrochemical complex at Umm Said Industrial Area.

Until the mid 1990s, Japanese and European firms were the leading international suppliers to the following industrial sectors: power generation, water desalination, telecommunications, motor vehicles, heavy machinery, and petroleum equipment. Since then, however, the market share of US companies has risen to over 14%. Foreign investment in enhanced oil recovery and production, and in liquefied natural gas (LNG) across the period 1992 to 2002 is estimated to have totaled over \$10 billion. Published Foreign direct investment (FDI) statistics show a peak of \$418.3 million in 1997, declining to \$113.3 million in 1999. In 2000 FDI rose to \$251.6 million, but declined to \$237.4 million in 2001. Average annual FDI 1997 to 2001 was \$273.58 million.

### 39 ECONOMIC DEVELOPMENT

Qatar follows a policy of diversifying and extending its industrial and commercial activities to reduce the current dependence on oil. Infrastructure, heavy and light industry, agriculture, and fishing have all been development targets. The Industrial Development Committee encourages investment and supervises industrial growth. The government also uses surplus oil revenues on the international money market to protect the purchasing power of those revenues. Qatar in the late 1990s launched some major/minor projects worth about \$7 billion: LNG plant expansion of the present fertilizer and petrochemical plants, aluminum smelter, Al Wusail power/water desalination plant, new Doha international airport, and upgrading and expansion of the offshore oil fields. Foreign investment in Qatar's oil sector

and industrial projects is estimated to have reached \$10 billion since 1992.

Qatar has extended economic assistance to other Arab states, to other developing nations, and to Palestinian organizations.

### 40 SOCIAL DEVELOPMENT

Public health services and education are provided free by the state through the Ministry of Labor and Social Affairs, which also provides help to orphans, widows, and other Qatari nationals in need of assistance.

Both law and Islamic customs closely restrict the activities of Qatari women, who are largely limited to roles within the home. Women are not allowed to obtain a driver's license without the permission of her husband. Shari'ah law governs inheritance and child custody matters and favors men. However, growing numbers of woman are receiving government scholarships to study abroad, and some women work in education, medicine, and the media. Women comprise two-thirds of the student body at Qatar University. Although domestic violence occurs, it is not a widespread problem.

Non-Muslims and Shi'a Muslims experience discrimination in employment and education. They are also unable to bring suits as plaintiffs in Shari'ah courts. Noncitizens make up 75% of the workforce yet are discriminated against and sometimes mistreated. A constitutional committee convened in 1999 to draft a permanent constitution that would allow for parliamentary elections. Corporal punishment is allowed by law, although amputation is not. In 1995, an American received 90 lashes for alleged homosexual activities.

### 41 HEALTH

Free public health services are extended to all residents of Qatar, regardless of nationality. The Ministry of Health has tried with some success to keep pace with an expanding population. As of 1985 there were three hospitals, with a total of 885 beds, and 20 health centers. In 1990 there were 2.9 hospital beds per 1,000 inhabitants. The nurse to doctor ratio was 1.5 to 1 in 1992. As of 1996 there were 1.3 physicians, 2.9 nurses, 0.2 dentists, and 0.5 pharmacists per 1,000 people. In 1991-93, 100% of the population had access to safe water and 100% of the population had access to health care services.

Life expectancy was estimated at 72.9 years as of 2002. That same year, infant mortality was an estimated 20.7 deaths per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 15.8 and 4.3 per 1,000 people. The fertility rate in 1999 was 2.6 children per woman living throughout her childbearing years.

The immunization rates for a child under one were as follows in 1994: diphtheria, pertussis, and tetanus, 91%; polio, 91%; measles, 86%; hepatitis, 90%; and tuberculosis, 94%. In 1993, there were 310 malaria cases. In 1995, no polio or tetanus cases were reported.

### 42 HOUSING

A "popular housing" scheme provides dwellings through interest-free loans and installment repayments on easy terms. Occupants are required to pay only 60% of the cost of their houses during a period of 20-35 years. To qualify for ownership, an applicant must be a married Qatari national with a limited income, between the ages of 20 and 50 years, and unable to build a house on his own. Qataris facing extreme hardship can receive a free house. Foreign nationals are not permitted to buy real estate. In 1991-93, 100% of the population had access to safe water.

### 43 EDUCATION

Adult illiteracy in the year 2000 was estimated at 18.7% (males, 19.5%; females, 16.8%) and continues to decline. Education is compulsory and free for all residents 6-16 years of age; a 100%

attendance rate for primary levels is the immediate target. As of 1996, there were 174 schools with 5,864 teachers and 53,631 pupils at the primary level. Student-to-teacher ratio stood at nine to one. Secondary level schools had approximately 4,000 teachers and 38,594 pupils in the same year. The pupil-teacher ratio at the primary level was 13 to 1 in 1999. In the same year, 95% of primary-school-age children were enrolled in school, while 78% of those eligible attended secondary school. All children receive free books, meals, transport, clothing, and boarding facilities if required. Scholarships for higher education abroad are given to all who qualify. As of 1995, public expenditure on education was estimated at 3.3% of GDP.

The leading higher educational institution is the University of Qatar, founded at Doha in 1973. In addition to faculties of education, science, humanities, social sciences, Islamic studies, and engineering, the university comprised a Language Teaching Institute (founded in 1972) and a Regional Training Center, established in 1979 with UNDP technical assistance. Enrollment in all higher-level institutions in 1997 was 8,475 pupils, with 643 teaching staff.

#### 44 LIBRARIES AND MUSEUMS

The Qatar National Library in Doha (founded in 1962) has 270,000 volumes. The University of Qatar library has 341,000 volumes. The British Council maintains a collection of 45,000 volumes. The Qatar National Museum in Doha has five major sections: the old Amiri Palace (11 buildings), and a new palace, aquarium, lagoon, and botanical gardens.

#### 45 MEDIA

Qatar enjoys excellent external telephone, telex, and cable facilities. Direct-dial telephone service is available for most parts of Europe, the Middle East, and the US. There were an estimated 142,000 mainline telephones in 1997 with an additional 43,476 cellular phones in use.

Radio transmissions include 12 hours per day of English-language service. A French-language service was instituted in 1985. As of 1998 there were 6 AM and 5 FM radio stations. In 2001, there was one television station. Broadcasts are mostly in Arabic. In 1997 there were 268 radios and 273 television sets per 1,000 population. In 2001, there were 75,000 Internet subscribers, with access available through the private telecommunications monopoly.

In 2002, there were six major daily newspapers. Commercial publications available in Qatar (with 2002 circulation figures) include the daily newspapers *Al-Arab* (25,000), *Ar-Rayah* (25,000), *Al-Sharq* (45,000), *Al-Wattan* (NA), *Daily News Bulletin* (NA), and *Gulf Times* (15,000). As of 1995 there were two major political weeklies (with 1995 circulations) *Al-Orouba* (50,000) and *Al-Ahad* (11,000).

The official censorship of the print media was lifted in 1995. Since then, it is said that the print media have been free of government interference. The censorship function continues for movies, videos, and radio and television programming. Also many foreign publications are banned, or have significant portions blacked out. Items typically censored are those containing sexually explicit material or anything deemed hostile or contrary to the teachings of Islam.

#### 46 ORGANIZATIONS

The Qatar Chamber of Commerce was founded in Doha in 1963. There were numerous family, social, and sporting clubs, including the Beacon Club and the Doha Sailing Association. National youth organizations include the Qatar Boy Scouts Association and the Qatar Student Association. The Red Crescent Society is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourist attractions in Qatar are somewhat limited, with small museums, mosques, and historic sites being the primarily sites of interest. International tourists in Qatar numbered 435,000 in 1997, a 33% increase over the previous year. There have been more international conferences and visa restrictions have been relaxed. Qatar Airways increased routes, and a direct flight to London has been implemented. Most of the tourist arrivals are from Europe. Hotels rooms numbered 1,998 with 2,710 beds and a 78% occupancy rate.

In 2002, the US State Department estimated the cost of staying in Qatar at about \$184 per day.

#### 48 FAMOUS QATARIS

Sheikh Khalifa bin Hamad al-Thani (b.1932) was emir of Qatar from 1972 to 1995. The heir-apparent Sheikh Hamad bin Khalifa al-Thani (b.1948) became emir in June 1995 following a bloodless coup that ousted his father.

#### 49 DEPENDENCIES

The State of Qatar has no territories or colonies.

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# SAMOA

Independent State of Samoa

*Malo Sa'oloto Tuto'atasi o Samoa i Sisifo*

**CAPITAL:** Apia

**FLAG:** The upper left quarter of the flag is blue and bears five white, five-rayed stars representing the Southern Cross; the remainder of the flag is red.

**ANTHEM:** *The Flag of Freedom.*

**MONETARY UNIT:** The Samoan tala (s) is a paper currency of 100 sene. There are coins of 1, 2, 5, 10, 20, and 50 sene and 1 tala, and notes of 2, 5, 10, 20, and 100 talas. s1 = US\$0.3333 (or US\$1 = s3.00) as of January 2003.

**WEIGHTS AND MEASURES:** British weights and measures are used.

**HOLIDAYS:** New Year's, 1–2 January; Independence Holidays (first three workdays of June), Anzac Day, 25 April; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays are Good Friday, Easter Monday, and Whitmonday.

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

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

Samoa consists of the islands of Savai'i and Upolu and several smaller islands, of which only Manono and Apolima are inhabited. The country, situated almost centrally both in the Pacific Ocean and among the South Sea islands, has a total land area of 2,944 sq km (1,137 sq mi), extending 150 km (93 mi) ESE–WNW and 39 km (24 mi) NNE–SSW. Savai'i and Upolu, separated by the Apolima Strait at a distance of nearly 18 km (11 mi), have a combined coastline of 403 km (250 mi). Comparatively, the area occupied by Samoa is slightly smaller than the state of Rhode Island.

## <sup>2</sup>TOPOGRAPHY

The islands are volcanic, with coral reefs surrounding most of them. Rugged ranges rise to 1,100 m (3,608 ft) on Upolu and 1,857 m (6,094 ft) on Savai'i. Apolima is a volcanic crater whose wall is pierced by a passage that connects its harbor with the sea. Manono, about 70 m (230 ft) high, consists chiefly of coral sand. The islands are in an area of active volcanism. Severe eruptions occurred in Savai'i during 1905–11.

## <sup>3</sup>CLIMATE

The climate is tropical, but because of the oceanic surroundings, temperature ranges are not considerable. The hottest month is December, and the coldest is July; the mean daily temperature is about 27°C (81°F). The year is divided into a dry season (May to October) and a wet season (November to April). Rainfall averages 287 cm (113 in) annually, and the average yearly relative humidity is 83%. Although the islands lie outside the normal track of hurricanes, severe storms occurred in 1889, 1966, and 1968. Trade winds from the southeast are fairly constant throughout the dry season.

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

Lush vegetation covers much of the land. Along the coast there are mangrove forests, pandanus, Barringtonia, hibiscus, and strand vegetation, commonly found throughout the Pacific. The

adjacent lowland forest, which originally stretched inland over the lower slopes of the mountains, has been cut down extensively on Upolu and in more limited areas on Savai'i. Inland and at higher elevations, the rain forests contain trees and lianas of many genera and species. The higher elevations of Savai'i contain moss forest and mountain scrub.

Fifty species of birds are found; 16 of these are seabirds, many of which visit Samoa only during the breeding season. Sixteen of the 34 species of land birds are indigenous. Among the latter are small doves, parrots, pigeons, and wild ducks. The most interesting bird, scientifically, is the tooth-billed pigeon (*Didunculus strigirostris* Peale), which some ornithologists regard as the connecting link between bird life of the present and the tooth-billed birds of zoological antiquity.

The only indigenous mammals in Samoa are the rat (*Mus exulans* Peale) and the flying fox (*Pteropus samoensis* Peale). Numerous species of birds and mammals, chiefly domesticated, have been introduced by the Samoans and Europeans. Two species of snakes, several different lizards, and the gecko are found. Insect life includes many species of moths, beetles, spiders, and ants. The mosquito (*Stegomyia pseudoscutellaris*) is a carrier of human filaria.

## <sup>5</sup>ENVIRONMENT

Samoa's environmental problems include soil erosion, damage to the nation's forests, and the need for protection of its wildlife. According to United Nation's sources, the forests are eliminated at a rate of 4–8,000 ha per year due to the expansion of farming activity. The lack of adequate sewage disposal facilities, as well as siltation and industrial by-products, threaten the nation's marine habitat's. Samoa's water supply is too small to support its current population. Threatened species include the insular flying fox, hawksbill turtle, Samoan moorhen, and Samoan flying fox.

## <sup>6</sup>POPULATION

The population of Samoa in 2003 was estimated by the United Nations at 177,000, which placed it as number 173 in population among the 193 nations of the world. In that year approximately

5% of the population was over 65 years of age, with another 41% 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 0.97%, with the projected population for the year 2015 at 203,000. The population density in 2002 was 60 per sq km (156 per sq mi).

It was estimated by the Population Reference Bureau that 22% of the population lived in urban areas in 2001. Apia, the capital city and only major town, had a population of 38,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 3.2%.

## 7 MIGRATION

Under German colonial rule, many Chinese laborers were imported to work on plantations. More recently, there has generally been a net annual loss of population through migration. Emigration (estimated at 5,278 in 1988) consists mainly of students going to New Zealand to continue their education, and Samoans seeking work there. In addition, several thousand Samoans live in American Samoa and other parts of the US. The total abroad in these countries and Australia was estimated at 76,200 in 1989.

The migration rate in 2000 was -22.8 migrants per 1,000 population.

## 8 ETHNIC GROUPS

Samoans comprise 92.6% of the total population. The Samoans are the second-largest branch of the Polynesians, a people occupying the scattered islands of the Pacific from Hawaii to New Zealand and from eastern Fiji to Easter Island. Most of the remaining Samoans are of mixed Samoan and European or Asian descent. Euronians (persons of European and Polynesian descent) make up 7% of the total, and Europeans constitute 0.4%.

For many years, all inhabitants of Samoa were accorded a domestic status as Samoan or European. Residents are now officially classed as either citizens or foreigners. Among Samoan citizens, however, the distinction between persons of Samoan or European status is still recognized. Most Samoans live in foreshore villages, while non-Samoans predominate in Apia and its environs.

## 9 LANGUAGES

Samoan is the universal language, but both Samoan and English are official. Some Chinese is also spoken. Most of the part-Samoans and many others speak English, and it is taught in the schools.

## 10 RELIGIONS

Over 99% of Samoans profess some form of Christianity and religious observance is strong among all groups. The Congregational Christian Church of Western Samoa, a successor to the London Missionary Society, is self-supporting and is the largest religious body in the country, comprising about 43% of the population, according to a 2002 report. The Roman Catholic (21%) and Methodist churches (17%) also have large followings. The Mormon (10%) and Seventh-Day Adventist (about 3%) churches, the Baha'is, Muslims, and a number of other denominations have smaller congregations located in various parts of the country.

## 11 TRANSPORTATION

The road system in 2002 totaled 836 km (519 mi), of which 267 km (166 mi) were paved; most are on the northern coast of Upolu. Buses and taxis provide public transport. In 2000, there were 3,900 passenger cars and 3,300 commercial vehicles.

Diesel-powered launches carry passengers and freight around the islands, and small motor vessels maintain services between Apia and Pago Pago in American Samoa. Fortnightly cargo and passenger connections are maintained with New Zealand, and scheduled transpacific services connect Samoa with Australian, Japanese, United Kingdom, and North American ports. Apia is the principal port; Asau, on Savai'i, was opened as a second deep-sea port in 1972.

As of 2001, there were 3 airports, each of which had a paved runway. Faleolo Airport, 35 km (22 mi) west of Apia, is the principal air terminal. Polynesian Airlines provides daily air connections with Pago Pago and regularly scheduled flights to other Pacific destinations; through Pago Pago there are connecting flights to New Zealand, Australia, and the United States. Air Samoa and Samoa Aviation provide internal air services between Upolu and Savai'i, and Hawaiian Airlines provides direct service between Honolulu and Faleolo and commuter service between Faleolo and Pago Pago. In 2001, 173,500 passengers were carried on scheduled domestic and international flights.

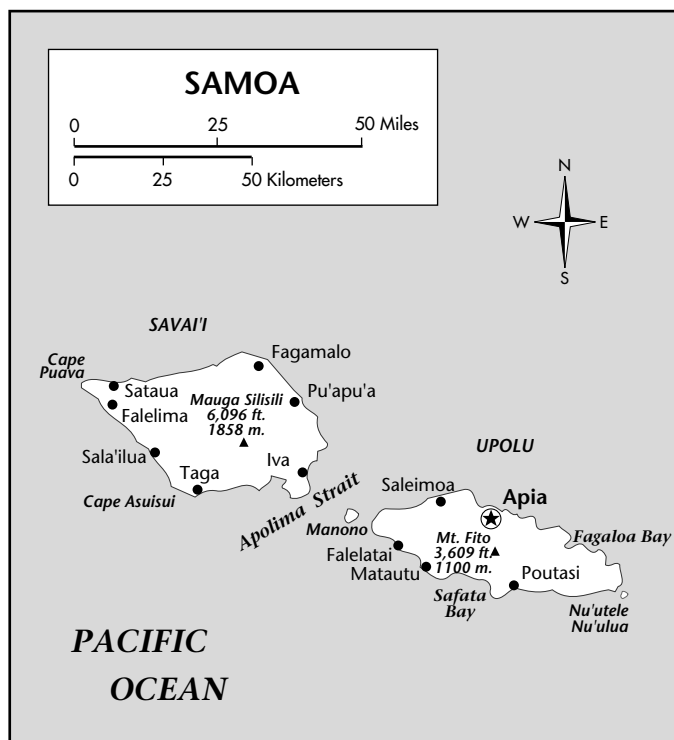
## 12 HISTORY

Archaeological evidence on Upolu indicates that Samoa was colonized by maritime traders of the Lapita culture at least as early as the 1st millennium BC. From the mid-13th century AD, genealogies, important titles, traditions, and legends give considerable information on the main political events. The first Europeans to sight the islands were the Dutch explorer Jacob Roggeveen in 1722 and the French navigator Louis de Bougainville in 1768. But the world knew little about Samoa until after the arrival of the missionary John Williams in 1830 and the establishment of the London Missionary Society.

Williams' arrival coincided with the victory of one group of chiefs over another, ending a series of violent internecine wars. Runaway sailors and other Europeans had already settled among the Samoans and had assisted the chiefs in their campaigns. Whalers also visited the islands, and from time to time the warships of great powers visited Apia to oversee the activities of whaling crews and settlers. Naval officers and missionaries both began to consult with the dominant group of chiefs as if it represented a national government and to treat its leader as a king. In time, semiofficial representatives of Great Britain and the United States were stationed in Apia. Between 1847 and 1861, the United States appointed a commercial agent, and Britain and the city of Hamburg appointed consuls.

Factional rivalries took a new turn as British, US, and German consular agents, aided sometimes by their countries' warships, aligned themselves with various paramount chiefs. Intrigues among the chiefs and jealousies among the representatives of the great powers culminated in civil war in 1889. In the Berlin Treaty, which followed, Britain, the United States, and Germany set up a neutral and independent government under King Malietoa Laupepe, and their consuls were authorized to constitute Apia as a separate municipality. The death of King Malietoa in 1898 led to a dispute over the succession, and the three powers intervened once again. In 1899, they abolished the kingship, and in 1900, they signed a series of conventions that made Samoa a German protectorate. The German administration continued to experience difficulties, leading to the exile of several Samoan leaders and the suspension of others from office. With the outbreak of World War I in 1914, New Zealand military forces occupied Samoa, and from 1919 to 1946, New Zealand administered the islands as a mandate of the League of Nations.

In 1927, local opposition to the New Zealand administration among both the Samoan and the European communities resulted in the formation of a nationalistic organization known as the Mau, which embarked on a program of civil disobedience. Its members withdrew from political life, from schools, and from all



LOCATION: 13° to 15°S; 171° to 173° W. BOUNDARY LENGTHS: Savai'i 188 kilometers (117 miles); Upolu coastline, 183 kilometers (114 miles). TERRITORIAL SEA LIMIT: 12 miles.

contact with the government. The protests lasted in one form or another until 1936, when the leaders of the Mau reached an agreement with the administration and reentered the political life of the territory.

In 1946, a trusteeship agreement was approved by the UN General Assembly, and New Zealand formally committed itself to promote the development of Samoa toward ultimate self-government. The passage of the Samoa Amendment Act of 1947 and a series of further amendments governed Samoa's subsequent evolution toward independence. An executive council was reconstituted in 1957, and the New Zealand high commissioner withdrew from the Legislative Assembly, which thenceforth was presided over by an elected speaker. In 1959, an executive cabinet was introduced, and in 1960, the constitution of the Independent State of Samoa was adopted. This was followed by a plebiscite under UN supervision in 1961 in which an overwhelming majority of voters approved the adoption of the constitution and supported independence.

On 1 January 1962, Samoa became an independent nation under the name of Western Samoa. Tupua Tamasese Meaoli and Malietoa Tanumafili II became joint heads of state. When the former died on 5 April 1963, the latter became the sole head of state. Fiaame Faumuina Mataafa was independent Western Samoa's first prime minister (1962–70) and served again in that post from 1973 until his death in 1975.

During the late 1970s and early 1980s, Western Samoa suffered from a worsening economy and growing political and social unrest. A divisive public-sector strike from 6 April to 2 July 1981 cut many essential services to a critical level. The leadership of Tupuola Taisi Efi, who later became head of the Christian Democratic Party and was prime minister from 1976, was successfully challenged by the Human Rights Protection Party (HRPP), which won the February 1982 general election. Judicial

rulings subsequently nullified some of the election results, and Tupuola returned to power from September to December. On 30 December 1982, however, a second HRPP government was formed, with Tofilau Eti as prime minister. Controversy erupted in 1982 over the signing by the HRPP government in August of a protocol with New Zealand that reduced substantially the right of Western Samoans to New Zealand citizenship. Tofilau resigned in December 1985, and Va'ai Kolone became prime minister in January 1986 as head of a new coalition government comprised of 15 CDP members and 12 former HRPP members. Tupuola was named deputy prime minister of the new government. In April 1988, Tofilau Eti was again appointed prime minister and approved by the legislative assembly.

In 1991, Western Samoa held its first elections under an arrangement of universal suffrage that was instituted after a national referendum passed in 1990. In that election, the HRPP won 28 of 47 seats and Tofilau once again became prime minister. In elections held 26 April 1996, Tofilau Eti retained his post as prime minister.

In July 1997, the country officially changed its name from Western Samoa to Samoa following a June affirmative vote by the legislative assembly. Tofilau Eti resigned due to poor health in November 1998 and died in March 1999 at the age of 74. He was succeeded by deputy prime minister, Tuila'epa Sailele Malielegaoi. In elections held 2 March 2001, Tuila'epa retained his post as prime minister, with the HRPP taking 23 seats in the Fono. The Supreme Court ordered four by-elections, which were won by the HRPP, bringing its total to 30 of 49 parliamentary seats. The HRPP formed a government with the support of several independent members of parliament.

In June 2002, New Zealand Prime Minister Helen Clark issued an apology to Samoans for injustices inflicted upon them during colonial times. During the time when New Zealand ruled the country (from 1919 to 1962), 22% of the population died as the result of an influenza virus introduced to the islands, and in 1929, New Zealand police fired upon and killed 9 people during a rally for independence.

### 13 GOVERNMENT

Executive power is vested in the head of state. Although Malietoa Tanumafili II, head of state in 1962, had lifetime tenure, the constitution took effect 1 January that year; it provides for his successors to be elected for a term of five years by the Fono, or legislative assembly. The powers and functions of the head of state are far-reaching. All legislation must have his assent before it becomes law. He also has power to grant pardons and reprieves and to suspend or commute any sentence by any court. Executive authority is administered by a cabinet consisting of a prime minister and 12 other ministers appointed by him. The head of state and the cabinet members comprise the executive council.

The 49-member parliament consists of the head of state and the Fono. Forty-seven Samoan members are elected out of the approximately 20,000 matai—traditional chiefs or heads of families—in six two-seat and 35 single-seat constituencies. The election of the 47 Samoan members is by universal adult suffrage. Citizens of non-Samoan origin who qualify for registration on the individual voters' roll elect the two other members by universal suffrage.

### 14 POLITICAL PARTIES

Technically, candidates for public office campaign as individuals, but political parties are becoming increasingly important. The Human Rights Protection Party (HRPP) was founded in 1979 as an opposition party to the government of Prime Minister Tupuola Efi. Tupuola's followers, although not yet formally organized, had, in effect, constituted the ruling party. Following the elections of 27 February 1982, the HRPP was able to command 23 votes in the Fono, as compared with 22 for Tupuola's party. The HRPP

leader, Va'ai Kolone, was chosen as prime minister, but in September the Supreme Court, upholding charges of electoral fraud, voided the election of two HRPP candidates, including the prime minister himself. Tupuola was then named prime minister, but by-election victories soon restored the HRPP majority in the Fono, and in December his government fell. On 30 December 1982, Tofilau Eti, the new HRPP leader, was chosen prime minister. He remained prime minister following the February 1985 elections, in which the HRPP captured 31 of the 47 seats, but resigned that December after his budget failed to win approval and the head of state refused to call new elections. In January 1986, a new coalition government led by Va'ai Kolone was formed.

Tofilau Eti, leader of the HRPP, was reelected prime minister in April 1988 as the result of a contested election that was settled by a judge flown in from New Zealand. A gradual deterioration in the bilateral relationship between Samoa and New Zealand continued with a dispute concerning the special immigration quota applied to Samoans. In October 1990 a referendum on the issue of universal suffrage narrowly passed. A proposal to establish an upper legislative chamber composed of traditional chiefs failed. In a general election held in April 1991 the ruling HRPP won 28 of 47 seats in the Fono, and Tofilau was reelected prime minister. Among the new ministers appointed was Fiaame Naomi, the first female cabinet member, as minister of education, youth, sports and culture, and labor. Polling was again held 26 April 1996, and Tofilau Eti remained prime minister. Tuila'epa Sailele Malielegaoi became prime minister in November 1998 as a result of the resignation of Tofilau due to ill health. He was elected prime minister in March 2001, with the HRPP taking 24 seats in the Fono; after 4 by-elections, the HRPP held 30 seats. In the 2001 elections, the Samoan National Development Party took 13 seats, and the Samoa United People's Party took 1 seat. Independents held 11 seats.

## 15 LOCAL GOVERNMENT

With the exception of the Apia area, local government is carried out by the village fono, or council of matai and orators, and where and when necessary, through meetings of matai and orators of a district. The main administrative link between the central government and the outside districts is provided by the part-time officials in each village who act as government agents in such matters as the registration of vital statistics; local inspectors represent the various government departments.

## 16 JUDICIAL SYSTEM

Court procedure is patterned after practices in British courts. Samoan custom is taken into consideration in certain cases. English is the official language of the court, but Samoan is also used. The supreme court has full civil and criminal jurisdiction for the administration of justice in Samoa. It is under the jurisdiction of the chief judge, who is appointed by the head of state, acting on the advice of the prime minister. The court of appeal consists of three judges who may be judges of the supreme court or other persons with appropriate qualifications.

Magistrates' courts are subordinate courts with varying degrees of authority. The highest, presided over by the senior magistrate, may hear criminal cases involving imprisonment of up to three years or cases involving only fines. The land and titles court has jurisdiction in disputes over Samoan land and succession to Samoan titles. Samoan assessors and associate judges possessing a good knowledge of Samoan custom must be present at all sittings of the court. Lawyers are not permitted to appear in the land and titles court; each party appoints its own leader, usually a chief or an orator. Court decisions are based largely on Samoan custom.

Some civil and criminal matters are handled by village "fonos" (traditional courts) which apply a considerably different

procedure than that used in the official western-style courts. The Village Fono Law of 1990 affords legal status to the decision of the village fono and allows appeal from fono decisions to the lands and titles court and to the supreme court. In July 2000, the supreme court ruled that the Village Fono Law could not be used to infringe upon villagers' freedom of religion, speech, assembly, or association.

## 17 ARMED FORCES

Samoa has no armed forces, and relies on its police force for internal security. The government foresees no military development because of financial considerations and the absence of threats from abroad. There are informal defense ties with New Zealand under the terms of the 1962 Treaty of Friendship.

## 18 INTERNATIONAL COOPERATION

Samoa became a member of the UN on 15 December 1976 and belongs to ESCAP, FAO, IBRD, ICAO, IDA, IFAD, IFC, IMF, UNCTAD, UNESCO, and WHO. The nation also participates in the Asian Development Bank, Commonwealth of Nations, G-77, South Pacific Commission, and South Pacific Forum, and is a signatory of the Law of the Sea. Samoa has observer status at the World Trade Organization. An Inter-Samoa Consultative Committee, made up of representatives from Samoa and American Samoa, holds meetings alternately in both countries to discuss matters of mutual interest. By treaty, New Zealand is the exclusive representative of Samoa in the conduct of its foreign affairs outside the Pacific region.

## 19 ECONOMY

The economy is based largely on agriculture, which, including fisheries, provides 50% of the GDP and employs two-thirds of the work force, mostly in subsistence farming of food crops. In addition to agricultural exports, tourist revenues and remittances from overseas workers are also important sources of foreign exchange. Economic performance has suffered since 1990 due to the devastation to crops, tourism, and infrastructure caused by cyclones Ofa and Val. In 1993/94 a fungal disease reduced taro production by 97%, threatening the island's basic food crop and causing negative growth in the economy. Samoa has the highest unemployment rate and the lowest wages in Oceania.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Samoa's gross domestic product (GDP) was estimated at \$618 million. The per capita GDP was estimated at \$3,500. The annual growth rate of GDP was estimated at 6%. The average inflation rate in 2001 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. It was estimated that agriculture accounted for 50% of GDP, industry 18%, and services 32%. Foreign aid receipts amounted to about \$248 per capita and accounted for approximately 17% of the gross national income (GNI).

## 21 LABOR

In 2000, there were approximately 90,000 workers in Samoa. The majority is engaged in agriculture, and cash crops are raised as supplements to subsistence crops. Agriculture, forestry and fishing account for 65% of wage employment; services account for 30% and industry for 5%.

There are only two trade unions in the country, representing workers at the three major banks and the country's only factory. Although small, a trade union movement has been established. Public employees are represented by the Public Service Association. Approximately 20% of the workforce is unionized. Over the years, thousands of skilled and semiskilled Samoans



have left the islands, mainly drawn away by better economic opportunities in New Zealand, Australia, and the United States.

Labor is generally restricted to a 40-hour week. Payment is in cash, and in many cases rations are also supplied to workers either as part of their wages or in addition to them. In most cases, living quarters are provided for plantation workers. The minimum hourly wage was \$0.47 in 2001. Samoan labor law also provides for rudimentary safety and health standards, but these standards are not effectively enforced. Children may not work before the age of 15, but the law does not apply to service rendered to the matai, who sometimes require children to work on village farms. Moreover, increasing numbers of children work as street vendors in Apia.

## 22 AGRICULTURE

Tropical agriculture occupies 43% of the land area, employs about 65% of the labor force, and makes up about 50% of GDP. Most Samoans grow food crops for home consumption and cash crops for export. Village agriculture, in which the family is the productive unit, involves the largest areas of land, occupies the preponderance of the labor force, and produces the major portion of food and cash crops. Coconut products, cocoa, taro, and bananas are produced for export, and bananas, taro, and taamu are grown for local sale. Village plantings are invariably mixed, containing some or all of the following crops: coconuts, cocoa, bananas, taro, taamu, breadfruit, sugarcane, yams, manioc, and various fruits. Plantation agriculture has been controlled mainly by non-indigenous residents.

Exports of unprocessed copra have been largely replaced by coconut oil, coconut cream, and copra cake. Due to a decline in world prices, coconut production fell to 95,000 tons in 1992. In 1999, coconut production was estimated at 130,000 tons. Taro (coco yam) production in 1999 amounted to 37,000 tons. Taro production dropped 97% in 1993/94 due to leaf blight, and the government is working on methods to control the disease. Exports of cocoa have fallen in recent years, thereby discouraging production. Since 1991, no production over 1,000 tons has been reported. Banana exports fluctuate greatly from year to year. Exports of agricultural products in 2001 amounted to \$5.1 million, while agricultural imports totaled \$17.7 million that year.

## 23 ANIMAL HUSBANDRY

Pigs and cattle form the bulk of the livestock. In 2001, pigs, which are common in the villages, were estimated to number 201,000 and cattle 28,000. A small number of cattle are kept for milk; the remainder are raised for beef. Nearly one-half of the cattle population is owned by WSTEC, the most progressive cattle breeder. Other livestock in 1998 included an estimated 7,000 donkeys and 3,000 horses. Meat production in 2001 was 5,100 tons, 75% of it pork.

## 24 FISHING

The government has sought to expand the fishing industry, but most fishing is still conducted along the reefs and coasts; deep-sea fishing, save for bonito and shark, is not developed. A \$3-million fish market and wharf, built with Japanese aid, was completed in Apia in 1982. The local fish catch, however, steadily fell from 4,020 tons in 1982 to 565 tons in 1991; by 2000 the catch rebounded to 13,004 tons, with tuna comprising about 40%.

## 25 FORESTRY

The nation's forest area is estimated at 105,000 ha (259,000 acres). Reforestation projects are concentrated on Savaii, which accounts for 80% of the nation's forest area. A large-scale timber-milling enterprise, established on Savaii in 1970, began to produce kiln-dried sawn timber and veneer sheets for export. Roundwood production in 2000 was 131,000 cu m (4.6 million

cu ft), with 53% used as fuel wood. Timber imports were estimated at \$2.2 million in 2000.

## 26 MINING

No minerals of commercial value were known to exist in Samoa.

## 27 ENERGY AND POWER

Samoa formerly depended heavily on imported energy, but hydroelectric power, first available in 1985, has greatly increased its generating capacity. In 2000, net electricity generation was 0.1 billion kWh, of which 59.2% came from fossil fuels and 40.8% from hydropower. In the same year, consumption of electricity totaled 95.8 million kWh. Total installed capacity at the beginning of 2001 was 25 MW.

## 28 INDUSTRY

The government has encouraged industrial growth, and manufacturing, geared mainly to processing primary products, is increasing steadily. Industries include food- and timber-processing facilities, a brewery, cigarette and match factories, and small individual enterprises for processing coffee and for manufacturing curios, soap, carbonated drinks, light metal products, garments, footwear, and other consumer products. A coconut oil mill, an additional coconut cream factory, a veneer mill, and a meat cannery began operations in the 1980s. In 1991, the Japanese Yazaki Samsa Company began manufacturing automotive seat belts. The firm also produces electrical wiring systems.

## 29 SCIENCE AND TECHNOLOGY

New Zealand provides extensive scientific and technical aid to Samoa. Other donors include Japan, the Federal Republic of Germany (FRG), Australia, the US, the UK, and the UNDP. UNESCO has an integrated field office in Apia to promote science in the Pacific States. The National University of Samoa, founded in 1988 at Apia, has a faculty of science. The University of the South Pacific, founded in 1977 at Apia, has a school of agriculture.

## 30 DOMESTIC TRADE

Apia, the capital, is the center of commercial life. Many firms act as agents for shipping and airlines and for overseas commercial organizations generally. Outside Apia, trading stations, linked with the capital by launch and road transport, collect produce and distribute consumer goods. Several major firms operate about 200 stations in the outer districts and secure a large share of the total commercial business. There are also a number of smaller firms and independent traders. In Apia, various firms and small shops sell imported commodities and domestic products. Open markets sponsoring local produce vendors are a common food retailing situation for a nation where 65% of the work force is employed in agriculture. The largest such market is Meketi Fou in Apia. Office hours are from 8 AM to noon and resume from 1 PM to 4:30 PM.

## 31 FOREIGN TRADE

The fact that Samoa has a limited number of exports—principally agricultural and timber products—renders its economy extremely vulnerable to weather conditions and market fluctuations. Imports consist chiefly of machinery and equipment, industrial supplies, and foodstuffs. The principal exports include fish, coconut oil and cream, copra, taro, garments, and beer. Foodstuffs and industrial supplies account for about 50% of the country's annual imports.

Samoa exports primarily to the United States, New Zealand, and Germany. Imports originate mainly from New Zealand, Australia, Japan, Fiji, and the United States. Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	12.6	13.8	-1.2
New Zealand	2.1	36.7	-34.6
Germany	1.9	3.0	-1.1
Australia	0.6	24.0	-23.4
Fiji		0.1	25-24.9
Japan	n.a.	17	n.a.

### 32 BALANCE OF PAYMENTS

In the early 1970s, Samoa's heavy trade deficits were largely offset by tourist revenues, remittances from Samoans working abroad, and long-term investment capital. By the early 1980s, however, rising import costs and declining export earnings led to a critical balance-of-payments situation. By 1992, the external account deficit (excluding grants) had increased to about 28% of GDP. Samoa's external debt stood at \$192 million in 1999.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Samoa's exports was \$17 million while imports totaled \$90 million resulting in a trade deficit of \$73 million.

The International Monetary Fund (IMF) reports that in 1999 Samoa had exports of goods totaling \$20 million and imports totaling \$116 million. The services credit totaled \$61 million and debit \$25 million. The following table summarizes Samoa's balance of payments as reported by the IMF for 1999 in millions of US dollars.

<b>Current Account</b>	<b>18</b>
Balance on goods	-98
Balance on services	37
Balance on income	0
Current transfers	42
<b>Capital Account</b>	<b>24</b>
<b>Financial Account</b>	<b>-1</b>
Direct investment abroad	...
Direct investment in Samoa	...
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	...
Other investment liabilities	-1
<b>Net Errors and Omissions</b>	<b>2</b>
<b>Reserves and Related Items</b>	<b>-7</b>

### 33 BANKING AND SECURITIES

Legislation in 1974 set up the Monetary Board to act as the central bank. The activities of the Monetary Board were taken over in May 1984 by the new Central Bank of Samoa. An Australian bank, ANZ, acquired the government's 25% stake in the Bank of Western Samoa (BWS), becoming its outright owner. The BWS is the largest bank in the country, with assets of about A\$16 million (US\$13 million). The government has also sold its Post Office Savings Bank (POSB) to a consortium of local businesses. The bank, to be renamed the National Bank of Samoa, is the country's first locally owned commercial bank. The other banks are Pacific Commercial Bank (owned by Westpac, the Bank of Hawaii, and local shareholders) and the Development Bank of Western Samoa.

Parliament passed legislation in early 1988 to allow the setting up of an offshore banking center. More than 1,000 companies have registered in Apia under the new tax haven legislation, contributing substantially to the national budget. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$24.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$86.6 million.

### 34 INSURANCE

There is a private life insurance company in Apia, National Pacific Insurance Ltd., managed by the National Insurance Co. of New Zealand.

### 35 PUBLIC FINANCE

Samoa's financial year ends on 31 December. Government budgets have commonly shown deficits in recent years. The US Central Intelligence Agency (CIA) estimates that in 1997 Samoa's central government took in revenues of approximately \$52 million and had expenditures of \$99 million including capital expenditures of \$37 million. Overall, the government registered a deficit of approximately \$47 million. External debt totaled \$188 million.

### 36 TAXATION

Individuals and companies are liable for the payment of income tax. The basic nonresident corporate tax rate is 48%, and the resident corporate tax rate is 39%; rates for both domestic and foreign insurance companies are lower. Personal income tax rates range from 5% to 50%. There are also gift, inheritance, and stamp taxes.

### 37 CUSTOMS AND DUTIES

Customs duties provide almost half of current government revenue and are levied on all imports except those specifically exempted. Preferential rates for imports from Commonwealth countries were abolished in 1975.

### 38 FOREIGN INVESTMENT

The government actively promotes the establishment of industries financed by overseas companies. These include milling and logging operations by a US company on Savai'i and by a joint Japanese-Samoan enterprise on Upolu, and a US hotel resort center near Apia.

### 39 ECONOMIC DEVELOPMENT

The government has consistently stressed diversification of agriculture. It has also sought through a series of plans to promote growth in manufacturing, forestry, fishing, hydroelectric power, and tourism, which received a boost when the Faleto Airport got a new terminal and runway extension in 1985. In 1989, an offshore banking center was launched. New Zealand, Australia, the United States, the Asian Development Bank, and the EC are major sources of development aid, and recently, Japan and Germany have provided technical and financial aid. Assistance from the UN family of organizations totaled US\$2.6 million in 1991. The country's fifth development plan (1985-87) called for an investment of ws\$146.9 million, s\$114.2 million of it from external sources. Investment increased significantly in 1990 and 1992, mainly due to increased public capital expenditure. External aid has been a major source of public investment financing, providing approximately 68% of capital expenditure in 1991 and 47% in 1992.

### 40 SOCIAL DEVELOPMENT

A social security system was established in 1972 under the Western Samoan National Provident Fund. It provides for employee retirement pensions, disability benefits, and death benefits. Employees contribute 5% of their earnings, and this amount is matched by their employers. Retirement is allowed at age 55. Workers' compensation is funded by employers and is compulsory. This program covers reasonable medical expenses, and is paid for entirely by employer contributions.

In Samoan society, obligations to the aiga, or extended family, are often given precedence over individual rights. While there is some discrimination against women, they can play an important

role in the traditional social structure, especially female matai, or heads of families. Domestic abuse is common and considered culturally acceptable, except in the most extreme cases. Universal suffrage was enacted in 1990, and the following year a Women's Affairs Ministry was established.

Human rights are generally well respected in Samoa.

#### 41 HEALTH

The Department of Health oversees health care on the islands. The country is divided into 14 health districts, each under a medical officer. In 1990, there were 50 physicians in the country. In 1996 there were 0.3 physicians, 1.6 nurses, and 0.04 dentists per 1,000 people. District nurses are stationed at strategic points throughout the islands. Child health clinics, particularly clinics for young children and infants, are a regular feature of their work. In 1991, 91% of children were vaccinated against measles. A mobile dental clinic operates in the villages, while all schools in Apia are visited at regular intervals by a team of dental practitioners.

Diabetic retinopathy is common in Polynesian Samoans. The increase in diabetes in recent decades is linked the Westernization of the Samoan diet. The life expectancy was estimated at 69.8 years as of 2002. During the same year, the infant mortality rate was an estimated 30.7 per 1,000 births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 15.5 and 6.4 per 1,000 people.

The immunization rates for children under age one in 1995 were as follows: diphtheria, pertussis, and tetanus, 95%; polio, 95%; measles, 98%; and tuberculosis, 98%. In 1994, there were 18 reported cases of tuberculosis.

In 1994, nearly 53% of men and 18.6% of women were smokers. Only four AIDS cases were reported in 1995.

#### 42 HOUSING

Most Samoans live in villages in traditional Samoan houses called fale. A fale is usually round or oval, with pebble floors and a thatch roof. It has no walls, being supported on the sides by posts. Coconut-leaf blinds can be lowered to exclude wind and rain. In areas more affected by contact with Europeans, the fale may have a concrete floor, corrugated iron roof, and lattice-work walls. Another fused Samoan-European type, much used by chiefs and pastors, is an oblong concrete house with some walls, often with separate rooms in each corner; like the fale it is open at the sides. Fales are grouped around an open area in the center of the village and have separate cookhouses behind them.

More modern housing has been constructed since about the 1990s, primarily through international assistance. Solid wall structures with concrete foundations and iron roofs have been built to withstand the natural elements of harsh wind, rain, and cyclones. However, low-income families are not able to purchase or build such structures without assistance. The Housing Corporation of Samoa was established by the Housing Corporation Act of 1989 to offer loans and assistance for prospective homeowners.

#### 43 EDUCATION

The adult literacy rate is estimated to be over 97%. Formal education is provided by the Department of Education and five religious missions. Government and mission schools have a uniform syllabus and common examinations. The government school system is the more comprehensive, with almost all its teachers holding Samoan teachers' certificates. Village schools provide four years of primary schooling. District schools draw the brighter pupils from village schools and educate them through the upper primary level. In the Apia area, urban schools provide a lower- through upper-primary curriculum. A major educational goal has been to make Samoans bilingual, with English as their second tongue. In the senior classes of the primary schools, all

instruction is in English. In 1989 there were 37,883 primary school pupils. The pupil-teacher ratio at the primary level was 24 to 1 in 1999. In the same year, 97% of all primary-school-age children attended school, while 68% of those eligible attended secondary school.

The government maintains secondary schools, in which the medium of instruction is English. Samoa College is patterned after a New Zealand secondary school; each year, 100 pupils from government and mission schools are selected for admission by competitive examination. Vaipouli High School, in Savaii, provides a general secondary curriculum, and Avele College, in Apia, offers training in modern agricultural methods. In addition, the University of the South Pacific School of Agriculture maintains a campus at Alafua, on the outskirts of Apia. The medium of instruction in mission secondary schools is English, with curriculum and textbooks similar to those used in New Zealand.

Samoa was one of the founders of the regional University of the South Pacific. The National University, which was established in 1984, was upgraded and provided with a new campus in 1997. Other tertiary institutions include the College of Tropical Agriculture and a Trades Training College.

#### 44 LIBRARIES AND MUSEUMS

The Nelson Memorial Public Library in Apia has 90,000 volumes. The library of the University of the South Pacific has around 22,000 volumes, and the Legislative Assembly has a library with 6,000 volumes. A bookmobile service operates on Upolu and Savai'i. The National Museum and Culture Center in Apia, established in 1984, includes a local museum, library, and theater and offers crafts workshops. Vailima is home to the Robert Louis Stevenson Museum, featuring the author's house and estate.

#### 45 MEDIA

In 1998 there were 8,183 mainline telephones in use and 1,545 cellular phones. Internal and overseas wireless telegraph services are available. The government-controlled Samoan Broadcasting Service, in Apia, transmits radio programs on two stations in Samoan and English and provides direct broadcasts from the Fono. As of 2001 there were four private radio stations, 1 AM and 3 FM. The only television station available that year was government owned. In 1997 there were 323 radios and 25 television sets in use per 1,000 population. In 2000, there were two Internet service providers serving 500 subscribers.

There are several bilingual weeklies, including the *Samoa Weekly* (1995 circulation, 4,500), *Samoa Observer* (3,500), and *South Sea Star* (2,000). There is one daily, *Samoa Times*, with a 1995 circulation of 5,000.

The constitution provides for free speech and a free press, and the government is said to respect these provisions in practice.

#### 46 ORGANIZATIONS

Among the numerous clubs, societies, and organizations in Samoa are the Chamber of Commerce, Red Cross, Catholic Club, Boy's Brigade Samoa, University of South Pacific Student Association, YMCA/YWCA, Returned Servicemen's Association, Mothers' Club, Soroptimist International of Samoa, Calliope Lodge of Freemasons, Federation of Women's Committees, and the South-East Asia and Pan-Pacific Women's Association.

#### 47 TOURISM, TRAVEL, AND RECREATION

Until 1965, official policy in Samoa was opposed to tourism, but during 1966–67 there was a complete reversal of policy. The government hired international tourist consultants to advise it on long-term means of developing a tourist industry. Samoa joined the Pacific Area Travel Association, extended tax holidays and

import-duty concessions to hotel building, and appropriated money for the building of new hotels.

The major tourist attractions are the beaches and traditional villages. In Apia is Vailima, the residence of the head of state and once the home of Robert Louis Stevenson; Stevenson's grave is nearby. Pastimes include swimming, water skiing, and fishing. Soccer and cricket are popular local sports.

In 2000, there were 72,895 tourist arrivals and tourism expenditures totaled \$40 million. That year there were 763 hotel rooms. The estimated cost of staying in was \$204 per day, according to 2000 US government estimates.

#### 48 FAMOUS SAMOANS

The Scottish author Robert Louis Stevenson (1850–94) lived principally on Upolu from 1889 until his death. Samoans famous since independence include Malietoa Tanumafili II (b.1913), who was named head of state in 1962, and Fiame Faumuina Mataafa (d.1975), who served as prime minister from 1962 to 1970 and again from 1973 until his death. Tupuola Taisi Efi (b.1938), was prime minister from 1976 to 1982. Tofilau Eti (b. American

Samoa, 1925?) was prime minister from December 1982 to December 1985, when he resigned and was succeeded by Va'ai Kolone.

#### 49 DEPENDENCIES

Samoa has no territories or colonies.

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# SA'UDI ARABIA

Kingdom of Sa'udi Arabia

*Al-Mamlakah al-'Arabiyah as-Sa'udiyah*

**CAPITAL:** Riyadh (Ar-Riyad)

**FLAG:** The national flag bears in white on a green field the inscription, in Arabic, "There is no god but Allah, and Mohammad is the messenger of Allah." There is a long white sword beneath the inscription; the sword handle is toward the fly.

**ANTHEM:** The National Anthem is a short instrumental selection.

**MONETARY UNIT:** The Sa'udi riyal (SR) is divided into 20 qursh (piasters), in turn divided into 5 halalah. There are coins of 1, 5, 10, 25, 50, and 100 halalah and notes of 1, 5, 10, 50, 100, and 500 riyals. SR1 = \$0.2666 (or \$1 = SR3.75) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system has been officially adopted.

**HOLIDAYS:** Muslim religious holidays include 1st of Muharram (Muslim New Year), 'Id al-Fitr, and 'Id al-'Adha'.

**TIME:** 3 PM = noon GMT.

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

Sa'udi Arabia constitutes about four-fifths of the Arabian Peninsula in Southwest Asia. Although Sa'udi Arabia is known to be the third-largest country in Asia, after China and India, its precise area is difficult to specify because several of its borders are incompletely demarcated. According to the UN, the nation has an area of 1,960,582 sq km (756,985 sq mi); it extends 2,295 km (1,426 mi) ESE-WNW and 1,423 km (884 mi) NNE-SSW. Comparatively, the area occupied by Sa'udi Arabia is slightly less than one-fourth the size of the United States. Sa'udi Arabia is bounded on the N by Jordan and Iraq, on the NE by Kuwait, on the E by the Persian Gulf, Qatar, and the United Arab Emirates (UAE), on the SE by Oman, on the S and SW by Yemen, and on the W by the Red Sea and the Gulf of Aqaba, with a total estimated land boundary length of 4,431 km (2,753 mi) and a coastline of 2,640 km (1,640 mi).

An agreement was reached in 1965 whereby the Neutral Zone separating Sa'udi Arabia from Kuwait was divided administratively between the two countries. A dispute between Sa'udi Arabia and the newly formed UAE over control of the Buraymi oasis was settled in 1974, when they reached an accord fixing their common border; however, the details of this treaty had not been made public by late 2002. An agreement dividing the Neutral Zone between Sa'udi Arabia and Iraq was reportedly reached in 1975 and confirmed in 1981, but as of early 1988, no details of the agreement had been filed with the UN. In the Ar-Rub' al-Khali ("Empty Quarter") of the southeast, Sa'udi Arabia's borders with Oman and the PDRY are not yet fully defined.

Sa'udi Arabia's capital city, Riyadh, is located in the east central part of the country.

## <sup>2</sup>TOPOGRAPHY

A narrow plain, the Tihamat ash-Sham, parallels the Red Sea coast, as do, farther north, the Hijaz Mountains (with elevations of 910–2,740 m/3,000–9,000 ft), which rise sharply from the sea. The highest mountains (over 2,740 m/9,000 ft) are in 'Asir in the

south. 'Asir is a region extending about 370 km (230 mi) along the Red Sea and perhaps 290–320 km (180–200 mi) inland. East of the Hijaz, the slope is more gentle, and the mountains give way to the central uplands (Najd), a large plateau ranging in elevation from about 1,520 m (5,000 ft) in the west to about 610 m (2,000 ft) in the east. The Dahna, a desert with an average width of 56 km (35 mi) and an average altitude of 460 m (1,500 ft), separates Najd from the low plateau (Hasa) to the east (average width, 160 km/100 mi; average altitude, 240 m/800 ft). This, in turn, gives way to the low-lying Gulf region.

At least one-third of the total area is sandy desert. The largest of the deserts is the famed Ar-Rub' al-Khali in the south, with an area of roughly 647,500 sq km (250,000 sq mi). An-Nafud, its northern counterpart, has an area of about 57,000 sq km (22,000 sq mi). There are no lakes, and except for artesian wells in the eastern oases, there is no perennially flowing water.

## <sup>3</sup>CLIMATE

The climate is generally very dry and very hot; dust storms and sandstorms are frequent. Day and night temperatures vary greatly. From May to September, the hottest period, daytime temperatures reach 54°C (129°F) in the interior and are among the highest recorded anywhere in the world. Temperatures are slightly lower along the coasts, but humidity reaches 90%, especially in the east, which is noted for heavy fogs. From October through April, the climate is more moderate, with evening temperatures between 16° and 21°C (61° and 70°F). Average annual rainfall is 9 cm (3.5 in), with most rain falling from November to May. Between 25 and 50 cm (10 and 20 in) of rain falls in the mountainous 'Asir area, where there is a summer monsoon.

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

Vegetation is sparse, owing to aridity and soil salinity. The date palm, mangrove, tamarisk, and acacia are prevalent. Wild mammals include the oryx, jerboa, fox, lynx, wildcat, monkey, panther, and jackal. The favorite game bird is the bustard. The camel and Arab stallion are renowned, as is the white donkey of

Al-Ahsa. Fish abound in the coastal waters and insects, scorpions, lizards, and snakes are numerous.

## 5 ENVIRONMENT

The Sa'udi government has traditionally not given priority to environmental protection, but in recent years it has become concerned about the continuing encroachment of sand dunes on agricultural land, the preservation and development of water resources, and pollution and sanitation problems. Legislation enacted in May 1978 forbids the felling of trees and regulates the protection of forestland. Sa'udi Arabia's natural environment was threatened by the Persian Gulf War.

The dumping of up to six million barrels of oil in the surrounding waters and the destruction of Kuwait's oil wells by fire polluted the nation's air and water. Sa'udi Arabia has 2.4 cubic kilometers of renewable water resources with 90% used for farming and 1% used for industrial purposes. Only 64% of the nation's rural population have access to safe drinking water. At current rates of consumption, the nation's water supply may be exhausted in 10–20 years. Sa'udi Arabia's cities produce an average of 4.8 million tons of solid waste per year. Sa'udi Arabia has signed the 1954 Convention for the Prevention of Pollution of the Sea by Oil. Under the 1976–80 and 1980–85 development plans, new desalination facilities were built, and urban sewage, waste, and storm drainage facilities were constructed.

The Directorate General for Environmental Protection is responsible for environmental protection measures and preservation of natural resources. In the late 1970s, the 'Asir Kingdom Park, in the southwest, was created to preserve the landforms, flora, and fauna of the 'Asir region, which forms part of the Great Rift Valley.

As of 2001, 2.3% of Sa'udi Arabia's total land area is protected. In the same year, 9 of the nation's mammal species and 11 types of birds were endangered. One type of plant was threatened with extinction. Endangered species in Sa'udi Arabia include the Asiatic cheetah (possibly extinct), South Arabian leopard, northern bald ibis, and two species of turtle (green sea and hawksbill). The Arabian gazelle, Queen of Sheba's gazelle, Sa'udi gazelle, and the Syrian wild ass have become extinct.

## 6 POPULATION

The population of Sa'udi Arabia in 2003 was estimated by the United Nations at 24,217,000, which placed it as number 45 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 43% of the population under 15 years of age. There were 116 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.92%, with the projected population for the year 2015 at 32,728,000. The population density in 2002 was 11 per sq km (29 per sq mi). Much of the population is concentrated on the coasts or internal oases; desert regions are largely uninhabited.

It was estimated by the Population Reference Bureau that 86% of the population lived in urban areas in 2001. The capital city, Riyadh, had a population of 3,183,000 in that year. Estimates of the population in other major metropolitan areas were: Jeddah, the principal port, 1,812,000; and Mecca (Makkah), containing Islam's holiest shrine, 920,000. Other major cities include At-Ta'if, 204,857; Medina (Al-Madinah), the second-holiest city of Islam, 500,000; Ad-Dammam, 127,884; and Al-Hufuf, 101,271. According to the United Nations, the urban population growth rate for 2000–2005 was 3.4%.

## 7 MIGRATION

Emigration is limited. Immigration of professionals, technicians, and others from the surrounding Arab states and growing numbers from outside the region has been spurred by the

development of the oil industry and by the lack of adequately trained and educated Sa'udi personnel. Palestinian Arabs, displaced by the establishment of the state of Israel, are the chief immigrant group. In the early 1990s there were significant numbers of expatriate workers from the US, European countries, Turkey, Jordan, Syria, Jordan, Kuwait, Yemen, the Republic of Korea (ROK), Pakistan, India, Sri Lanka, and the Philippines. In 1990 when Iraq invaded Kuwait, Sa'udi Arabia reacted by expelling workers from Jordan, Yemen, and Palestinians, for their countries' support of Iraq. The foreign population was 4,624,459 in 1992 (27% of the total population). After the Gulf War, 93,000 Iraqis were granted temporary asylum. Since then, 60,000 Iraqis were returned under the POW exchange. In April 1997, 20,800 had resettled in 33 different countries, 3,010 had voluntarily repatriated, and 9,000 were still in camps in Sa'udi Arabia. By 1999, 5,390 Iraqi and 158 Afghan refugees were living in the Rafha Camp administered by the government. In 2000, the net migration rate was 4.3 migrants per 1,000 population. The total number of non-citizens living in the country in 2000 was 5,255,000. The government views the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

The great majority (90%) of the Sa'udis have a common Arabian ancestry, and the population is homogeneous in religion and language. Divisions are based mainly on tribal affiliation or descent, the primary distinction being between groups with a tradition of being sedentary agriculturalists or traders, and the Bedouins, who have a tradition of nomadic pastoralism. The two groups traditionally have been antagonistic. There has been some loosening of tribal ties, however, caused by rapid economic development. Afro-Asians account for the remaining 10% of the population. Admixtures of Turks, Iranians, Indonesians, Pakistanis, Indians, various African groups, and other non-Arab Muslim peoples appear in the Hijaz, mostly descendants of pilgrims to Mecca.

## 9 LANGUAGES

Arabic, the native language of the indigenous population, is a Semitic language related to Hebrew and Aramaic. Local variations in pronunciation do not prevent oral communication between people from opposite sections of the Arabian Peninsula. The language is written in a cursive script from right to left. The 28 letters of the alphabet have initial, medial, and terminal forms; short vowels are seldom indicated. Most business people and merchants in oil-producing areas and commercial centers understand English. Government correspondence must be written in Arabic.

## 10 RELIGIONS

About 85% of the people of Sa'udi Arabia are Sunni Muslims. The dominant form of Islam is Wahhabism, a fundamentalist Muslim reform movement first preached by the 18th-century religious leader Muhammad bin 'Abd al-Wahhab. Most other Sa'udis up to 15% are Shi'i Muslims. The holy city of Mecca is the center of Islam and the site of the sacred Ka'bah sanctuary, toward which all Muslims face at prayer. A pilgrimage to Mecca is one of the five basic obligations of Islam and is incumbent on every Muslim who is physically and financially able to perform it.

There are several thousand foreign Christian employees—Arab, US, and European. Jews have not been allowed to enter the country since the establishment of the state of Israel in 1948 except under special circumstances.

Islam is the state religion and all citizens must be Muslims. The government claims that the Holy Koran and the Sunna (tradition) of the Prophet are the country's constitution. The public worship of non-Muslim faiths is prohibited. While non-Muslim foreigners are theoretically permitted to worship privately, the guidelines



LOCATION: 16°23' to 32°14' N; 34°30' to 56°22' W. BOUNDARY LENGTHS: Jordan, 728 kilometers (455 miles); Iraq, 814 kilometers (505 miles); Kuwait, 222 kilometers (138 miles); Persian Gulf coastline, 751 kilometers (468 miles); Qatar, 60 kilometers (37 miles); UAE, 457 kilometers (285 miles); Oman, 676 kilometers (420 miles); Yemen 1,458 kilometers (906 miles); Red Sea coastline, 1,889 kilometers (1,170 miles). TERRITORIAL SEA LIMIT: 12 miles.

which designate between public and private worship are ambiguous.

## 11 TRANSPORTATION

Until recent decades, the camel was the chief means of transportation in Sa'udi Arabia, but enormous strides have been made since the early 1970s. By 2002 there were 146,524 km (91,050 mi) of highways, of which 44,104 km (27,406 mi) were paved. Modern roads link Jeddah, Mecca, Medina, At-Ta'if, and

Riyadh; a new highway connects Sa'udi Arabia with Jordan, and a causeway completed in 1986 offers a direct connection with Bahrain. In 2000, passenger car registrations totaled 1.5 million and there were 1.1 million commercial vehicles. Most within-country freight is hauled by truck. The Sa'udi Government Railroad, which operates between Ad-Dammam and Riyadh over a length of 575 km (357 mi), was built by the Arabian American Oil Co. (ARAMCO) during the 1950s. Railroad lines totaled 1,392 km (865 mi) of standard-gauge track at last estimate.

In 2001, there were 209 airports, 71 with paved runways. Major airports include Dhahran International at Dhahran, King Abdul Aziz at Jeddah, and King Khaled International at Riyadh. The government-owned Sa'udi Arabian Airlines (Saudia) operates regular domestic and foreign flights to major cities. Because of the large distances that separate the main cities, air travel is preferred within the Kingdom. In 2001, 12,835,700 passengers were carried on scheduled domestic and international flights.

Jeddah, on the Red Sea, is the chief port of entry for Muslim pilgrims going to Mecca. Sa'udi Arabia has the largest seaport network in the Near East with eight major ports with 183 piers and three smaller ports. Ports include Ad-Dammam, Yanbu' al-Bahr, Jizan, Duba, Jeddah, Jizan, Rabigh, Ra's al Khafji, Mishab, Ras Tanura, Madinat Yanbu' al Sinaiyah, and Jubail (Al-Jubayl). In 2002 there were 71 ships with a capacity of 1,071,315 GRT in the merchant fleet. The traditional dhow is still used for coastal trade.

## 12 HISTORY

For several thousand years, Arabia has been inhabited by nomadic Semitic tribes. Towns were established at various oases and along caravan routes. During the 7th century AD followers of Muhammad expanded beyond the Mecca-Medina region and within a century conquered most of the Mediterranean region between Persia in the east and Spain in the west. Although Arabs were dominant in many parts of the Muslim world and there was a great medieval flowering of Arab civilization, the Peninsula itself (except for the holy cities of Mecca and Medina) declined in importance and remained virtually isolated for almost a thousand years. Throughout this period, Arabia was barely more than a province of successive Islamic caliphates that established their capitals in Damascus, Baghdad, Cairo, and Constantinople (now Istanbul).

The foundations of the kingdom of Sa'udi Arabia were laid in the 18th century by the fusion of the military power of the Sa'ud family and Wahhabism, an Islamic puritan doctrine preached by Muhammad bin 'Abd al-Wahhab. Muhammad ibn-Sa'ud (r.1744–65) and his son 'Abd al-'Aziz (r.1765–1803) gave the religious reformer refuge at Ad-Dar'iyah, in central Arabia, and together they embarked on a program of religious reform and territorial expansion. By 1801, Najd and Al-Ahsa were occupied. 'Abd al-'Aziz's son and successor, Sa'ud (r.1803–14), brought the Hijaz under Sa'udi control and took the holy city of Mecca. The Ottoman Turks called on their governor of Egypt, Muhammad 'Ali, to put down the Sa'udis. A long struggle (1811–18) finally resulted in Sa'udi defeat. During that time, Sa'ud died, and his son 'Abdallah (r.1814–18) was captured and beheaded.

When international conditions forced Muhammad 'Ali to withdraw his occupation forces in 1840, the Sa'udis embarked upon a policy of reconquest. Under Faisal (Faysal, r.1843–67), Wahhabi control was reasserted over Najd, Al-Ahsa, and Oman, with Riyadh as the new capital. (Hijaz remained under the control of the sharifs of Mecca until 1925.) After Faisal's death, conflict between his sons led to a decline in the family's fortunes. Taking advantage of these quarrels, the Ibn-Rashids, a former Sa'udi vassal family, gained control of Najd and conquered Riyadh. The Sa'udi family fled to Kuwait in 1891.

In January 1902, 'Abd al-'Aziz, a grandson of Faisal, who was to gain fame under the name Ibn-Sa'ud, succeeded in driving the Ibn-Rashid garrison out of Riyadh. At a decisive battle in 1906, the Rashidi power was broken. In 1913, the Sa'udis again brought Al-Ahsa under their control, and in December 1915, Ibn-Sa'ud signed a treaty with the British that placed Sa'udi foreign relations under British control in return for a sizable subsidy.

Warfare broke out again in Arabia in 1919, when Hussein ibn-'Ali (Husayn ibn-'Ali), the sharif of Mecca, who had become an independent king, attacked the Sa'udis. Hussein was defeated, and Ibn-Sa'ud annexed 'Asir. In 1921, he finally rid Arabia of the

Rashids, and by 1923, he had consolidated his kingdom by occupying the districts west and north of Ha'il. Hussein of Mecca provoked another conflict with Ibn-Sa'ud in March 1924 by proclaiming himself caliph. War broke out, and the Sa'udis captured At-Ta'if, Mecca, and Medina (December 1925). 'Ali ibn-Hussein ('Ali ibn-Husayn), who had replaced his father as king of Hijaz, then abdicated, and in November 1925, Ibn-Sa'ud entered Jeddah. This increase in Ibn-Sa'ud's territory was acknowledged by the British in a treaty of 20 May 1927 that annulled the 1915 agreement and recognized his independence. On 22 September 1932, the various parts of the realm were amalgamated into the Kingdom of Sa'udi Arabia, with much the same boundaries as exist today.

With the discovery of oil in the 1930s, the history of Sa'udi Arabia was irrevocably altered. Reserves have proved vast—about one-fourth of the world's total—and production, begun in earnest after World War II, has provided a huge income, much of it expended on infrastructure and social services. Sa'udi Arabia's petroleum-derived wealth has considerably enhanced the country's influence in world economic and political forums. Following the 1967 Arab-Israeli war, the Sa'udi government undertook a vast aid program in support of Egypt, Syria and Jordan. Sa'udi Arabia joined the 1973 Arab boycott against the United States and the Netherlands and, as a key member of OPEC, lent its support to the huge rise in oil prices during the 1970s. This move had stunning consequences for the world economy and also caused a dramatic upsurge in Sa'udi Arabia's wealth and power. Since the 1980s, the government has regulated its petroleum production to stabilize the international oil market and has used its influence as the most powerful moderate member of OPEC to restrain the more radical members.

Political life in Sa'udi Arabia has remained basically stable in recent decades, despite several abrupt changes of leadership. In November 1964, Crown Prince Faisal (Faysal ibn 'Abd al-'Aziz as-Sa'ud), a son of Ibn-Sa'ud, became king and prime minister following the forced abdication of his brother King Sa'ud. His first act as prime minister was to announce a sweeping reorganization of the government, and his major social reform was the abolition of slavery. In March 1975, King Faisal was assassinated by a nephew in an apparently isolated act of revenge. Faisal was succeeded by Crown Prince Khaled (Khalid ibn-'Abd al-'Aziz as-Sa'ud), who embarked on an expanded development program. King Khaled died of a heart attack in June 1982, and his half-brother, Crown Prince Fahd ibn-'Abd al-'Aziz as-Sa'ud, ascended the throne. King Fahd has encouraged continuing modernization while seeking to preserve the nation's social stability and Islamic heritage. As the custodian of the holy Moslem shrines at Mecca and Medina, the monarchy has been deeply embarrassed by several incidents in recent years; e.g., seizure of the Grand Mosque in Mecca by about 500 Islamic militants in 1979, which led to the deaths of more than 160; a riot by Iranian pilgrims during the 1987 pilgrimage, which cost 400 lives; and the suffocation of over 1,400 pilgrims in a tunnel at the Grand Mosque in 1990. Misfortune continued in 1994, when a stampede in Mecca killed 270 pilgrims rushing toward a cavern for a symbolic stoning ritual, and in 1997, when as many as 300 pilgrims were killed in a fire at a campsite outside the holy city.

When Iraq invaded Kuwait in 1990, Sa'udi Arabia, fearing Iraqi aggression, radically altered its traditional policy to permit the stationing of foreign troops on its soil. (The government was criticized by senior Sa'udi religious scholars for taking this step.) Riyadh made substantial contributions of arms, oil, and funds to the allied victory. It also expelled workers from Jordan, Yemen, and members of the PLO for giving support to Iraq in the period after the invasion. Sa'udi Arabia's wealth and selective generosity has given it great political influence throughout the world and especially in the Middle East. It suspended aid to Egypt after that



country's peace talks with Israel at Camp David, Md., but renewed relations in 1987. It made substantial funds secretly available to US president Ronald Reagan's administration for combating Marxist regimes in Central America. The kingdom played a key role in creating the Gulf Cooperation Council (GCC) and in working for an end to the civil strife in Lebanon. It actively supported Iraq during the war with Iran and tried, in vain, to prevent the conflict with Kuwait.

Sa'udi Arabia and the United States consult closely on political, economic, commercial, and security matters. The United States, with the United Kingdom, is a major supplier of arms and offers training and other support to the kingdom's defenses. These supports grew more visible following the Gulf War and continued Iraqi intransigence in the face of increased US and international pressure to disarm. The increased US military presence in Sa'udi Arabia in 1993–94 caused considerable irritation among conservative elements of Sa'udi society who felt that the US military presence was blasphemous to Islam. In 1995, seven people, including five Americans, were killed by a terrorist attack on a Sa'udi National Guard Training Center in Riyadh. In June 1996, a car bomb detonated in front of a housing complex for US military personnel killed 19 US servicemen, causing considerable uproar in the United States and leading military planners to relocate US military bases to remote desert areas.

By the end of the 1990s, the Islamist backlash that followed Sa'udi-US cooperation in the Gulf War had been contained through the (mostly) temporary detention of hundreds of Islamic radicals and the long-term detention of their most prominent leaders. Between 1997 and 1999, the reins of government had largely passed to Crown Prince Abdullah, the half-brother of the ailing King Fahd, who was believed to have suffered a stroke in 1995 and whose two-month stay in Spain in the summer of 1999 raised renewed speculations about his health. At the turn of the 21st century, much of the Saudis' attention was focused on unaccustomed economic pressures resulting from a 40% drop in oil prices in 1998. With almost half its GDP coming from oil, the country's budget deficit had soared as export revenues plummeted. Prince Abdullah was instrumental in pushing through the production cutbacks agreed to by the OPEC countries in March 1999.

At a summit held in Beirut in March 2002, the Arab League accepted a Sa'udi proposal for peace between Israel and the Palestinians, put forward by Crown Prince Abdullah. Known as the "Beirut Declaration," the plan offered Israel normalized relations with the Arab states and a guarantee of peace and security in exchange for a full Israeli withdrawal from the territories occupied by Israel after the 1967 Arab-Israeli War, a "just solution to the Palestinian refugee problem," and Israeli recognition of a Palestinian state with its capital at East Jerusalem. The proposal was introduced against the backdrop of an escalation in violence in Israel and the occupied territories in spring 2002, when Israel took over Palestinian-controlled cities and territories in the West Bank and Gaza Strip in response to an increase in suicide bombings and violence resulting from the then 18-month-old al-Aqsa *intifada*. In April, Crown Prince Abdullah met with US president George W. Bush, and presented him with an eight-point list of proposed agreements for immediate peace in the Middle East. It included an end to Israel's military siege of Ramallah, where Palestinian leader Yasser Arafat was sequestered; complete Israeli withdrawal from territories recently occupied in the conflict; introduction of a multinational force in the region; the reconstruction of Palestinian areas; the renunciation of violence; the initiation of peace talks; an end to Israeli settlements; and implementation of UN resolutions calling for Israel's withdrawal from the territories occupied during the 1967 war, including the Golan Heights and West Bank. Palestinian Authority Cabinet Minister Saeb Erekat called the Sa'udi proposal approved in Beirut the most important step

toward peace taken in over 20 years. After Crown Prince Abdullah's peace plan was put forward, the violence in Israel and the West Bank and Gaza increased.

Due to the fact that 15 of the 19 hijackers involved in the 11 September 2001 terrorist attacks on the United States were Sa'udis, in addition to al-Qaeda leader Osama bin Laden, the United States placed pressure on Sa'udi Arabia to undertake counterterrorism measures. The United States during 2002 and into 2003 lobbied Sa'udi Arabia for its support in a possible war with Iraq if it were to be found in "material breach" of UN Security Council Resolution 1441 passed on 8 November 2002, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD), allow for the reintroduction of IAEA and UN weapons inspectors, and comply with all previous UN resolutions regarding the country passed since the Gulf War in 1991. In early 2003, Sa'udi Arabia was debating what degree of support it would offer the United States in the event of a war with Iraq. Senior members of the royal family indicated in February 2003 that Sa'udi Arabia might call for the withdrawal of American troops from the country following the end of the campaign to disarm Iraq. Although those statements were not confirmed by the US Pentagon, it is clear that Sa'udi Arabia is considering a reevaluation of its relationship with the US. It was assumed that security cooperation would continue, yet any distance Sa'udi Arabia might take from the United States would be seen as paving the way for political reform, including increased democratization and a curtailment of the power of Wahhabi religious authorities. On 26 February, Sa'udi Arabia stated it would allow the use of the Prince Sultan air base, where most of the 5,000 US troops based in the kingdom are located, only for the enforcement of a "no-fly" zone over southern Iraq. It stated it had not agreed to allow US troops and planes based in the country to undertake a war with Iraq. However, Sa'udi Foreign Minister Prince Sa'ud al-Faisal stated the kingdom could reconsider its position with regard to the US military presence if circumstances were to change.

### 13 GOVERNMENT

Sa'udi Arabia is a religiously based monarchy in which the sovereign's dominant powers are regulated according to Muslim law (Shari'ah), tribal law, and custom.

There is no written constitution; laws must be compatible with Islamic law. In a decree of March 1992, the king was granted exclusive power to name the crown prince his successor. The Council of Ministers, first set up in 1953, is appointed by the king to advise on policy, originate legislation, and supervise the growing bureaucracy. The post of prime minister has been reserved for the king, and the crown prince has been appointed first deputy prime minister. Most other important posts in the cabinet are reserved for members of the royal family.

In 1992, King Fahd announced the creation of the Majlis al Shura, an advisory body that would provide a forum for public debate. The king appointed 60 male citizens not belonging to the royal family to four-year terms on this body, which held its first meeting on 29 December 1992. In 1997, King Fahd increased the size of the Majlis to 90 members. In May 2001, membership was increased to 120.

### 14 POLITICAL PARTIES

Although there are no political parties in Sa'udi Arabia, various groups do function as blocs, contending for influence. Important among these groups are the conservative *'ulama* (religious scholars) and the members of the royal family. Other alliances—by merchants, businessmen, professionals, and leading families—are concerned with economic matters. There is also a small but growing middle class that seems to want greater political participation and a less restrictive social environment. Each group brings its weight to bear on the policymaking bodies of the

government and the king, whose leadership is upheld so long as he adheres to Islamic law, tradition, and the collective decisions of the 'ulama. In opposition to the royal family are small, strictly outlawed groups of pro-democracy activists and extremist Islamists, who have engaged in terrorist attacks, principally against signs of Western influence. Identified groups connected with Islamists include the Committee for the Defense of Legitimate Rights, The Reform Movement, and the Islamic Awakening.

### 15 LOCAL GOVERNMENT

The kingdom is divided into 13 emirates, each headed by a crown-appointed governor, often a prince or other member of the royal household or from an allied family. The provinces are subdivided into 103 governorates. Tribal and village leaders (sheikhs) report directly to provincial governors, giving the central government some control over outlying regions. Provincial governors, in turn, report to the Minister of the Interior. Each sheikh traditionally rules in consultation with a council. A large segment of the population remains tribally organized: tribes, headed by paramount sheikhs, are divided into subtribes, headed by local sheikhs. Decisions are made by tribal sheikhs, emirs, or other chiefs and their councils (*majlis*).

### 16 JUDICIAL SYSTEM

The king acts as the highest court of appeal and has the power of pardon; access to the king and the right to petition him are well-established traditions. The judiciary consists of lower courts that handle misdemeanors and minor civil cases; high courts of Islamic law (*Shari'ah*); and courts of appeal. Islamic law of the Hanbali school prevails in Sa'udi Arabia, but justice is also based on tribal and customary law. Capital and corporal punishment are permitted; a 12-member Supreme Council of Justice reviews all sentences of execution, cutting, or stoning. A separate military justice system exercises jurisdiction over uniformed personnel and civilian government authorities.

There is no written constitution. The Justice Ministry is responsible for appointment and promotion of judges, who are confirmed by the Royal Court (Royal Diwan). Judges may be removed only by the Supreme Council of Justice or by royal decree. Although independence of the judiciary is guaranteed by law, courts are subject to the influence of royal family members. At the provincial level, governors also reportedly exercise influence over local judges.

*Shari'ah* summary courts have jurisdiction over common criminal cases and civil suits regarding marriage, divorce, child custody, and inheritance. While summary courts try cases involving small penalties, more serious crimes go to the *Shari'ah* courts of common pleas. Appeals from both courts are heard by the appeals courts in Mecca and Riyadh. There is also a court of cassation, as well as administrative tribunals that deal with the proceedings involving claims against the government and enforcement of foreign judgments.

The military tribunals have jurisdiction over military personnel and civil servants charged with violation of military regulations.

### 17 ARMED FORCES

Sa'udi Arabia's armed forces totaled active 124,500 personnel in 2002, not including the 75,000 members of the national guard. The army had 75,000 personnel, 1,055 main battle tanks, and an army aviation command. The navy's strength was 15,500 personnel including 3,000 marines. The navy was equipped with 4 frigates and 26 other combatants. The air force had 18,000 personnel and manned 294 combat aircraft. The national guard, numbering 75,000, is used chiefly for internal security and is an elite strategic reserve loyal to the Royal family. Sa'udi Arabia also had a 10,500-member frontier force, a 4,500-member coast guard, a helicopter-equipped counterterrorist unit, and 7,000

foreign military personnel under contract from members of the GCC. The armed forces are equipped with the most advanced weaponry, including 5 Airborne Warning and Control Systems (AWACS) aircraft, which were sold to Sa'udi Arabia by the US in 1981, over Israel's strenuous objections, as part of an \$8.5 billion arms deal. In 2000 Sa'udi Arabia spent \$18.3 billion, or 13% of GDP on defense. The US maintains air defense missiles and interceptors on a rotational basis.

### 18 INTERNATIONAL COOPERATION

Sa'udi Arabia is a charter member of the UN, having joined on 24 October 1945, and participates in ESCWA and all the nonregional specialized agencies. It is a founding member of the Arab League and of OPEC (as well as OAPEC), belongs to G-77 and GCC, and has permanent observer status with the OAS. It is also signatory to the Law of the Sea and has applied for membership in the WTO. Although supporting the Palestinian cause and the Arab League's boycott of Israel, the Sa'udi government in 1981 proposed that the Arab nations show willingness to extend diplomatic recognition to Israel in return for its withdrawal from lands occupied in the 1967 war (including the West Bank and East Jerusalem). Relations with Iran have long been tense and have worsened since that nation's Islamic revolution in 1979. In 1987, Iranian pilgrims rioted in Mecca in an attempt to destabilize the royal family. Although Sa'udi Arabia was not a combatant in the Iran-Iraq war, it actively supported Iraq against Iran.

### 19 ECONOMY

The economy is heavily dependent on oil production, which provided over 90% of export value and 75% of government revenues in 2001. The country has the largest reserves of petroleum in the world, 24.9% of the proven total as of the end of 2000, with its northern neighbor, Iraq, holding second place at 10.7%, and two other Arab neighbors, the UAE and Kuwait, third and fourth, at 9.3% and 9.2%, respectively. Rapidly increasing oil income after the first oil shock, 1973-74, led by the Organization of Oil Exporting Countries (OPEC) cartel, were used to increase disposable income, defense expenditures and economic development. OPEC was able to enforce a quadrupling of oil prices (from \$2.50/bbl to \$10/bbl) largely because of King Faisal's agreement to deploy the oil weapon in conjunction with the Yom Kippur War. Per capita income in current dollars peaked at \$15,700 in 1980 after the second oil shock, 1978-79 in conjunction with the Iranian Islamic revolution, sent oil prices to all-time highs, peaking at just over \$40/bbl. In September 1980 at the start of the Iraq-Iran war. From there, population growth (about 350% 1973 to 2003, from 6.76 million to 24.3 million, including an estimated 5 million non-nationals), a decreasing OPEC share of world oil production (from over 50% in 1973 to less than 30% in 1985 to about 40% in 2003), oil conservation efforts among consumers, and limited success in diversifying the economy have combined to reduce per capita income more than 40% to \$6,837 by 2001 (equivalent to \$10,600 in purchasing power parity terms according to CIA estimates). The contribution of the oil sector (crude oil and refined products) to the overall GDP, nevertheless, has substantially decreased, from 70% in 1980 to an estimated 40% to 45% during the period 1999 to 2001.

As an oil producer, Sa'udi Arabia's economy has a rentier structure, profiting from oligopolistic ownership of a factor of production. Marginal production costs for a barrel of oil in Sa'udi Arabia are about \$1.50, which, since 1973, it has generally been able to sell for between \$10/bbl. and \$40/bbl. largely because of cooperation within OPEC, an open producers' cartel. After the collapse of world oil prices in 1986, when benchmark Sa'udi light oil, at \$28/bbl. in 1985, bottomed out at \$8/bbl. (in real terms, lower than 1973 prices), the economy has been more

subject to more normal operations of supply and demand. Maintenance of OPEC target prices rests heavily on Sa'udi restraint, often below its official quotas. Sa'udi restraint reduces its oil revenues as the same time that the high price encourages non-OPEC production and cheating by poorer OPEC members, which, in turn, brings down the world price, which also reduces Sa'udi oil revenues.

The government has always made economic diversification a top priority, seeking to develop industries using petroleum, such as petrochemicals, as well as to finance industrialization. By 1989 the massive Jubail and Yanbu'al-Bahr industrial complexes, combining petrochemicals and steel production had been largely completed. Diversification efforts, however, are made within the context of a number of fundamental restraints, the most pervasive being the rentier structure itself, which blunts incentives to acquire competitive skills. In favor of efforts to maintain monopolistic advantages. Even in the capital-intensive oil industry, the Saudis have relied heavily on foreign workers who make up about 20% of the population. The Kingdom's intolerance of democratic processes, labor unions, women's participation in the work place, and foreign influences are just some of the more obvious impediments to development beyond a rentier-based economy.

There are, however, mounting pressures for economic reform, including falling per capita income, attendant social frustrations, the emergence of government deficits and a sizeable, though still manageable, external debt. In 1998 the government, led by Crown Prince Abdullah, embarked on a privatization strategy as a means of restoring per capita growth. In April 1998, the Sa'udi Telecommunications Company (STC) and the Sa'udi Electricity Company (SEC) took initial steps in privatizing telecommunications and electric power services. In September 1998 Prince Abdullah held meetings in Washington, D.C. with several leading American oil company representatives, beginning what has been called the Crown Prince's Oil Initiative, which is essentially a plan to bring private companies in to develop Sa'udi natural gas resources the way they had developed the country's oil resources.

Real growth of the GDP averaged about 2.6% between 1988 and 1998. The economy shrank by 11% in 1998 due to low world oil prices, but posted a 1% gain in 1999. Nominal GDP growth was 21.3% in 2000 and a negative 10.7% in 2001, reflecting, respectively, a sharp rise and a sharp fall in oil prices. However, the CIA estimates real growth for 2001 at 1.6%. The CIA also estimates that inflation in 2001 was 1.7%.

In 1999, the Crown Prince revitalized efforts to secure Sa'udi Arabia's acceptance in the WTO, although with no apparent intention of eliminating some of the more obvious violations of trade organization's principles, such as a strict enforcement of boycotts against Israel. In 2003, the Sa'udis hired a Texas law firm to lobby on its behalf for accession to the WTO.

The economy remains dominated by large state-owned monopolies. For 2001, the CIA estimated that the private sector accounted for about 25% of GDP, a decrease from an estimate of 35% in 1999. The government is considering privatizing the national airline, petrochemical industries, the telecommunication sector, and electricity companies to foster diversification, but no firm plans have emerged. The government encourages growth in agriculture as a means to reduce Sa'udi Arabia's net reliance on food imports, but dramatic reductions in farm subsidies resulted in a continuing decline in agricultural output.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Sa'udi Arabia's gross domestic product (GDP) was estimated at \$241 billion. The per capita GDP was estimated at \$10,600. The annual growth rate of GDP was estimated at 1.6%. The average inflation rate in 2001 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 7% of GDP, industry 48%, and services 45%. Aid receipts amounted to about \$1 per capita.

## 21 LABOR

The total labor force in 2001 stood at seven million. Approximately 35% of those were foreigners working mostly in the oil and construction sector. Of the 1999 workforce, 63% were in the service sector, with 25% in industry and the remaining 12% in agriculture.

Labor unions are illegal and collective bargaining is forbidden as well. Workers have few protections against employers. This is especially true of foreign workers who are often forced to work long hours and beyond the term specified by their contracts. Foreign workers have little redress against Sa'udi employers, since the labor system usually sides with the latter and employers can delay cases until the workers have to return home. Sa'udi employers routinely prevent workers from obtaining exit visas. In 2001, the government allowed the formation of labor committees which are permitted to make recommendations to employers.

By royal decree an eight-hour day and 48-hour week are standard. It is reported that domestic workers labor up to 20 hours a day seven days a week. Labor regulations require protection from hazard and disease for employees except farmers, herdsmen, domestic servants, and family-operated business employees. Labor outdoors is prohibited when the temperature exceeds 50°C (122°F). Foreign workers report that these regulations are seldom enforced. With the consent of parents, children may work as young as 13 and children rarely work in Sa'udi Arabia outside of family businesses. There is no minimum wage.

## 22 AGRICULTURE

Agriculture engaged 12% of the economically active population in 1999 and accounted for about 7% of GDP. Only about 1.1% of Sa'udi Arabia's land area is cultivated, although 40% is suitable for grazing. Small owner-operated farms characterize Sa'udi Arabia's land-tenure system. About 96% of the farm area is owned, and only 4% rented. Less than 3% of the agricultural holdings are of eight hectares (20 acres) or more, and 45% are 0.4 hectare (1 acre) or less in size. About two-thirds of the cropped land is used for cereals and the remainder for vegetables and fruit. Although Sa'udi Arabia has more than 18 million date palms and provides over 12% of the world's supply of dates (an estimated 650,000 tons in 1999), the growing of dates has declined in recent decades in favor of wheat, corn, sorghum, tomatoes, onions, grapes, and a variety of other fruits and vegetables. Nevertheless, dates remain the only major staple food crop with production sufficient to meet local demand. Sa'udi Arabia is 85% self-sufficient for vegetables and 66% for fruit. Wheat output increased from an estimated 150,000 tons in the late 1970s to 1,700,000 tons in 1985, and the government claimed that it met total domestic demand by 1986/87. Production of wheat totaled 1,800,000 tons in 1999; government subsidies have led to a recurring overproduction of wheat. In 1989, the government attempted to discourage production by cutting price supports, but production is still several times higher than domestic demand. Barley production amounted to 400,000 tons in 1999.

Aquifers supply 80% of agriculture's water requirements, but are not renewable. Agricultural irrigation accounts for 90% of total water needs, with wheat production alone using about one-third of the country's annual water supply.

## 23 ANIMAL HUSBANDRY

As of 2001, Sa'udi Arabia had an estimated 8,049,000 sheep, 4,600,000 goats, 415,000 camels, 620,000 head of cattle, 100,000 donkeys, and 3,000 horses. As imports of animal foodstuffs have increased and as greater varieties of agricultural products have been produced locally, camels have declined steadily in importance as a source of food. Arabia has long been famed for its horses, but the importance of the Arabian horse as an export item is now virtually nil. Donkeys and mules are still valued as pack animals, and the white donkeys of Al-Ahsa are well known. Sheep are found in all parts of Sa'udi Arabia where pasturage is available; they are raised for milk, as well as for meat and wool. Goats are kept for milk; their hair is used in rugs and tents, and the skins serve as water bags. Traditional farmers account for 80% of the kingdom's sheep production. Overall sheep production is expected to significantly increase in the next few years as a result of expansion by existing farms and establishment of new sheep breeding and fattening projects. About seven million head of live sheep are imported every year. The import level is expected to remain about the same in upcoming years, partly as a result of the increasing number of pilgrims who come to Mecca for the Hajj. Beef has not been a significant part of the Sa'udi diet and most beef and veal is consumed by expatriates, as traditional Saudis prefer camel meat. The concern over BSE (the so-called "Mad Cow" disease) in 1996 led the government to ban beef imports from Ireland, the United Kingdom, France, Switzerland, and Portugal.

The output of poultry and eggs doubled during 1975–80, and in 1998, Sa'udi Arabia had an estimated 125 million poultry. Sa'udi Arabia is self-sufficient in milk production—in 2001, 740,000 tons were produced. There is no hog raising, and importation of pork products is banned as contrary to Islamic law.

## 24 FISHING

Fishing provides employment and self-sufficiency to some communities on both Sa'udi coasts, although cash earnings are negligible. With rare exceptions, traditional fishing techniques are used. One of the few growth areas in this sector has been the export of Gulf shrimp. The fish catch was estimated at 49,650 tons in 2000.

## 25 FORESTRY

The only forest growth is found in the mountainous area that extends from southern Hijaz to Asir, accounting for no more than 0.6% of the total area. The principal varieties—acacia, date, juniper, wild olive, sidr, tamarind, and tamarisk—are generally not useful for timber, but some wood from date palms is used for construction. The trade deficit in forestry products was \$735.5 million in 2000.

## 26 MINING

Oil continued to dominate Sa'udi Arabia's mining sector—the country supplied 12.3% of the world's crude oil output in 2000, petroleum and petroleum products accounted for 90% of the country's export earnings in 2002 and 70% of government revenues, and crude oil and natural gas accounted for 42% of GDP; other minerals contributed 0.4% of GDP. Sa'udi Arabia has nevertheless diversified by expanding its gold production in recent years, as well as production of cement, fertilizer, petrochemicals, and steel. Cement production, construction, and fertilizer manufacturing ranked fourth, fifth, and sixth, respectively, among the country's leading industries in 2002.

Production of ore concentrate and bullion (metal content) in 2000 included copper, 900 tons, up from 821 in 1999; gold, 3,800 kg, down from 7,530 in 1996; and silver, 9,300 kg, down from 17,200 in 1997. In 2000, the country also produced lead,

zinc, barite, basalt, clays, phosphatic fertilizer, granite, gypsum, lime, limestone, marble, nitrogen, nitrogenous fertilizers, pozzolan, salt, sand and gravel, silica sand, scoria, sodium hydroxide (caustic soda), and sulfur. Mining operations continued at the ancient gold and silver underground mine Mahd adh-Dhahab (literally, "cradle of gold"), which was located southeast of Medina and probably dated from the time of King Solomon (10th century BC). Other gold producers were the open-pit silver and gold Amar Mine, southwest of Riyadh, which began operations in 2000, and the Sukhaybirat surface mine, northwest of Riyadh.

Feasibility studies at Balghah estimated resources to be 40 million tons at a grade of 1 grams per ton of gold. The remote Zabirah bauxite deposit had minable resources of 102 million tons. About 3,000 showings for at least 50 metallic and nonmetallic minerals have been located. Substantial national reserves of gold, iron ore, silver, copper, zinc, lead, pyrites, phosphate, magnesite, barite, marble, and gypsum have been suspected, and an intensive search was being carried on by Sa'udi and foreign companies.

All minerals, including petroleum and natural gas, were owned by the government. A modern mining code encouraged foreign participation, although majority holdings by national interests have increasingly been stressed. The Foreign Investment Act of 2000 gave international investors the same rights and privileges as Sa'udi investors. The government was also considering a revised mineral policy to attract additional investment in the mining sector. In 2000, the government established the Supreme Council for Petroleum and Mineral Affairs. The state-owned Sa'udi Arabian Mining Co. (Ma'aden) was created in 1997, and participated actively in and promoted mineral exploration and mining activities throughout the kingdom. Several metal and industrial mineral mining projects were expected to come onstream within the next 10 years.

## 27 ENERGY AND POWER

Oil was first discovered in Sa'udi Arabia in 1938, and exploitation of the world's largest oil field, Ghawar (west of Al-Hufuf), began 10 years later. By 1975, Sa'udi Arabia had become the world's third-leading producer (after the United States and USSR) and largest exporter of crude oil. With the continued development of Sa'udi Arabia's production capabilities and the dissolution of the Soviet Union in December 1991, Sa'udi Arabia became the world's largest oil producer. Most oil exports are transported by tanker from the Persian Gulf port of Jubail, and the rest moves by pipeline to the Red Sea port of Yanbu al-Bahr. In 2001, oil exports contributed \$54.9 billion and accounted for 90%–95% of the total export revenue. Proven reserves of crude oil, found along the Gulf in a quadrangular area northeast of Riyadh, were estimated at 264.2 billion barrels, or more than 25% of the world's known deposits, in early 2002. ARAMCO, a US-controlled firm that held the original oil concession, divested 60% of its interests to the Sa'udi government in 1974 and the remainder in 1980, but continued to produce 96% of Sa'udi Arabia's oil under a management contract with the Sa'udi government.

After the Iranian revolution of 1979 and the outbreak of war between Iran and Iraq in 1980, the Sa'udi government made up for the diminished oil exports of both countries by increasing its average oil output to a record 9.9 million barrels per day in 1980. Production remained high at 9.8 million barrels a day in 1981 but was cut to 6.5 million barrels daily in 1982. Because of the continued oversupply of oil, Sa'udi Arabia cut its production from 1983 to 1985, when it averaged about 3.3 million barrels per day. In 1986, in an attempt to increase its market share, Sa'udi Arabia temporarily abandoned its role as the swing producer in Organization of the Petroleum Exporting Countries (OPEC) and flooded the market, producing about 5 million

barrels a day, forcing the price to less than \$10 per barrel. Since 1987, when production amounted to 4.2 million barrels per day, Sa'udi Arabia has dramatically intensified production, especially since the end of the 1991 Persian Gulf War. In 2001, an estimated 8.7 million barrels of oil (8 million, crude oil) were produced per day. As of 2002, Ghawar, with remaining reserves estimated at 70 billion barrels, was still the world's largest oil field. Safaniya, with estimated reserves of 19 billion barrels, was the world's largest offshore field.

As of 2002 two major pipelines operated actively in Sa'udi Arabia. The Petroline, used to transport crude oil to refineries in western Sa'udi Arabia and to the Red Sea for export, was constructed in 1981 and expanded in 1987. In 1993 its capacity was increased to 5 million barrels per day. The Abqaiq-Yanbu pipeline, which carried natural gas liquids to petrochemical plants in Yanbu, had a capacity of 290,000 barrels per day. The IPSA pipeline had been closed indefinitely since Iraq invaded Kuwait in 1990.

Natural gas production was 46.1 billion cu m (1.6 trillion cu ft) in 1999. Reserves of natural gas, estimated at 6.2 trillion cu m (219 trillion cu ft) at the beginning of 2002, ranked as the world's fourth-largest (surpassed only by Russia, Iran, and Qatar). About two-thirds of these reserves consisted of gas associated with the onshore Ghawar oil field and the offshore Safaniya and Zuluf fields.

Sa'udi Arabia has limited waterpower resources, and oil-powered diesel engines generate most of its electric power. Electrical service, which reached 2.2 million people in 1975, was extended to 4.2 million in 1979 and, by 1990, reached 92% of the population. Total installed generating capacity was 23,792 MW at the beginning of 2001. Production in 2000 amounted to 120.7 billion kWh, of which 100% was from fossil fuels. As of 2002, demand for power was growing about 5% annually, and it was estimated that capacity would need to be nearly doubled by 2020 to meet the country's needs. Solar energy is becoming increasingly important as an alternative to diesel power, particularly for use in the desalination of seawater.

## 28 INDUSTRY

Although the Sa'udi economy has been virtually synonymous with crude oil, the country is attempting to diversify its manufacturing. Industrial products include cement, steel, glass, metal manufactures, automotive parts, and building materials, along with petroleum refinery products and petrochemicals (primarily methanol, ethylene, and polypropylene).

Industries producing consumer goods for the local market rely for the most part on imported raw materials. The most notable growth has occurred in food processing and includes meat-packing plants, flour mills, ice cream, yogurt, other dairy processing plants, and vegetable canneries. Other companies produce canvas cloth, surgical supplies, paper products, plastic pipes, electric appliances, paints, detergents, and pharmaceuticals.

## 29 SCIENCE AND TECHNOLOGY

The government encourages importation of high technology, especially in the oil industry, but its own commitment to national technological development has been limited. The Industrial Studies and Development Center is located in Riyadh, and the King Fahad University of Petroleum and Minerals, founded in 1963, is in Dhahran. Other institutions offering courses in basic and applied sciences include King Abdulaziz University, founded in 1967 at Jeddah; King Faisal University, founded in 1975 at Dammam and Al-Hassa; King Sa'ud University, founded in 1957 at Riyadh; and Yanbu Industrial College, founded in 1989 at Yanbu al-Sinaiyeh. In 1987-97, science and engineering students accounted for 17% of college and university enrollments. The King Abdul Aziz City for Science and Technology was founded in

1977 at Riyadh to formulate the national policy for science and technology development, and to draw up the strategy and plans for its implementation.

## 30 DOMESTIC TRADE

Jeddah and Riyadh are the commercial and business centers of the country. Most major cities host large, modern supermarkets and specialty retail stores offering wide varieties of goods and services. Franchising has become popular with a wide range of goods and service-based establishments. Barter is the traditional means by which nomads and farmers have obtained each other's products, and weekly markets are held in villages and small towns. However, the economy is being progressively monetized and is now completely so in the towns and cities. Newspapers, magazines, and billboards are the principal means of advertising.

Normal business hours vary in different provinces but are usually from 7:30 AM to 1:30 PM and 2:30 to 8 PM, Saturday through Wednesday. The normal workday is eight hours; during the month of Ramadan, however, the workday is limited to six hours. Banks are generally open from 8:30 AM to 12 noon and 5 to 7 PM, Saturday through Wednesday, and 8:30 to 11:30 AM, Thursday. Friday is the day of rest in Sa'udi Arabia. Most businesses, including stores and restaurants, take breaks at the designated Muslim prayer times, which are spaced at five times throughout the day. These breaks generally last for about a half an hour each.

## 31 FOREIGN TRADE

Sa'udi Arabia's commodity exports are dominated by mineral fuels, which account for 13% of the world's mineral fuel exports. Crude petroleum (79% of total exports, 16.3% of world crude petroleum exports) and refined petroleum products (12% and 7.1%, respectively) are the largest exports. Other exports include polymers (1.2%) and industrial alcohols (1.4%, accounting for 8.1% of the world's industrial alcohol exports).

In 2000 Sa'udi Arabia's imports were distributed among the following categories:

Consumer goods	17.3%
Food	15.9%
Fuels	0.2%
Industrial supplies	24.2%
Machinery	19.9%
Transportation	21.2%
Other	1.3%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	6,524	4,392	2,132
United States	6,517	11,577	-5,060
Korea	3,986	1,456	2,530
Singapore	2,982	420	2,562
India	2,338	767	1,571
France	1,622	1,570	52
Netherlands	1,538	691	847
United Kingdom	1,345	4,896	-3,551
Italy	1,259	1,814	-555
Germany	527	2,652	-2,125

## 32 BALANCE OF PAYMENTS

In 2000 foreign worker remittances, approximately \$18 billion per year, continued to drain the current account. There are roughly 6-7 million foreign workers and their families living in the country, and the remittances cause the currency to be subject to a mild devaluating pressure. Strong oil exports in the early 2000s, however, kept the current account in surplus.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Sa'udi Arabia's exports was \$66.9 billion while imports totaled \$29.7 billion resulting in a trade surplus of \$37.2 billion.

The International Monetary Fund (IMF) reports that in 2001 Sa'udi Arabia had exports of goods totaling \$73 billion and imports totaling \$28.6 billion. The services credit totaled \$5.18 billion and debit \$19.3 billion. The following table summarizes Sa'udi Arabia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>14,502</b>
Balance on goods	44,387
Balance on services	-14,125
Balance on income	-520
Current transfers	-15,240
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-16,411</b>
Direct investment abroad	...
Direct investment in Sa'udi Arabia	20
Portfolio investment assets	-2,798
Portfolio investment liabilities	...
Other investment assets	-12,343
Other investment liabilities	-1,289
<b>Net Errors and Omissions</b>	<b>...</b>
<b>Reserves and Related Items</b>	<b>1,909</b>

### 33 BANKING AND SECURITIES

Until the mid-20th century, Sa'udi Arabia had no formal money and banking system. To the degree that money was used, Sa'udis primarily used coins having a metallic content equal to their value (full-bodied coins) for storing value and limited exchange transactions in urban areas. For centuries, foreign coins had served the local inhabitants' monetary needs. Development of banking was inhibited by the Quranic injunction against interest. A few banking functions existed, such as money changers (largely for pilgrims visiting Mecca), who had informal connections with international currency markets. A foreign bank was established in Jeddah in 1926, but its importance was minor. Foreign and domestic banks were formed as oil revenues began to increase. Their business consisted mostly of making short-term loans to finance imports, commercial trading, and businesses catering to pilgrims. Although lending at interest is prohibited by Islamic law, banking has flourished in Sa'udi Arabia as a conduit for the investment of oil money. The Sa'udi Arabian Monetary Agency (SAMA) was established by royal decree in 1952 to maintain the internal and external value of currency. The agency issues notes and coins with 100% cover in gold and convertible foreign exchange and regulates all banks and exchange dealers.

SAMA runs a stock exchange in Sa'udi Arabia, created in 1990 as an over-the-counter market in which the commercial banks buy and sell shares by means of an electronic trading system. Although this system has facilitated easy access to transacting, the market remains relatively illiquid because of the small numbers of issuers and the narrow investor base. There are 76 companies listed on the exchange. The value of traded shares was \$22.2 billion in 2001, a turnover ratio of 31.7%. Total market capitalization was just over \$73 billion. The new IFCG Sa'udi Index closed up 7.4% in 2001, its fourth year of existence, after surging increases of 49% and 16.3% in 1999 and 2000, respectively. The market is closed to direct foreign investment, but foreigners can buy and trade shares of Sa'udi companies within a closed-end fund listed in the United Kingdom. In 2002 there were 10 commercial banking houses, the largest of which was The National Commercial Bank. Cumulatively, the total size of the bank's balance sheets stood at over SR110 billion, with operating profits of SR2 billion in 2001. Eight of the ten are joint venture banks. The major foreign partners include Citibank, Arab Bank Ltd., Banque Indosuez, HSBC Holdings, and ABN

Amro. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$48.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$88.4 billion.

### 34 INSURANCE

There were at least 70 insurance firms operating in Sa'udi Arabia in 1998 offering all categories and classes of insurance. The National Company for Cooperative Insurance, founded by royal decree in 1985 and owned by three government agencies, had share capital of SR250 million. In all, insurance premiums amounted to over \$760 million. Premiums covering oil facilities, major projects, marine and aviation represent over 44% of total premiums, motor insurance accounts for 23%, medical 18%, and fire 14%. Insurance organizations in Sa'udi Arabia are regulated by the Ministry of Commerce. One insurer is officially licensed by the kingdom, the National Company for Cooperative Insurance, which is primarily owned by the government. Insurance companies operating in the country adhere to the tenets of Islam, which does not recognize insurance. For this reason, there are no insurance laws on the books, except those dealing with benefits for injured employees.

### 35 PUBLIC FINANCE

Public expenditures typically have acted as the vanguard for economic growth and development since the early 1970s. After completing the infrastructure in the 1970s and early 1980s, the emphasis of development expenditures moved to education and training, to encourage private enterprise. By 1987, 70% of non-oil GDP was coming from the private sector. Deficits have been common since 1983, as oil revenues have declined. Oil revenues typically account for nearly 75% of government revenues. Deep budget cuts over the past years; higher charges on energy, electricity, water, telephone, worker and visa fees; and reduced subsidies on fuels, utilities, and airline fares; have combined to reduce the deficit. To finance the deficit, the government borrows from domestic financial markets.

However, Sa'udi government finances are not transparent; a perennial uncertainty being the difference between the revenues received by the national oil company, Aramco, and what is turned over the Ministry of Finance to fund government expenses. The difference goes to Aramco's operating expenses and numerous off-budget expenditures. Observers believe that one major use of the off-budget money has been to pay down arrears on contracts, amounting to an estimated \$30 billion in 1995. Estimates are that such arrears had been reduced to \$3 billion by 2000. With the exception of the year 2000, the Sa'udi government has run a deficit every year since 1982. Rising oil prices in 2000, recovering from near-record lows in 1999, helped produce a \$12 billion surplus as oil revenues came in 60% higher than expected. The accumulated domestic debt in 2000, however, was an estimated 105% of GDP, which has been financed by government pension funds and bonds held by banks and some companies. External debt from transactions in the privatized portions of the economy had reached nearly \$40 billion in 2001, but this represents a still manageable 21% of the annual GDP.

The US Central Intelligence Agency (CIA) estimates that in 2002 Sa'udi Arabia's central government took in revenues of approximately \$42 billion and had expenditures of \$54 billion. Overall, the government registered a deficit of approximately \$12 billion.

### 36 TAXATION

The taxing authority in Sa'udi Arabia is the Department of Zakat and Income Tax. During the early 1970s, a progressive income tax was levied on all personal income of foreign residents in excess of sr6,000, at the rate of 5–30%; there was also a

progressive tax of 25–45% on the profits of foreign companies. These taxes were abolished in 1975; in January 1988, an attempt was made to revive them, but it was rescinded almost immediately after widespread complaint. However, foreign companies that have not obtained exemption under the Foreign Investment Code and foreigners who are self-employed professionals or general partners in Sa'udi partnerships are subject to these taxes.

Corporate taxes range from 25–45% of net income. The zakat is an Islamic tax derived from the Shari'ah and applied directly to the income and property of Saudis (and resident Gulf state nationals); half of the zakat rate of 2.5% is paid to the government, and the other half is distributed by citizens to the poor. The income of members of the royal family is tax-exempt.

### 37 CUSTOMS AND DUTIES

Sa'udi Arabia has increasingly used the tariff to protect local industries. The general tariff rate is 5%; new Sa'udi industries are protected by a 20% tariff rate. Importation of liquor, firearms, ammunition, and narcotics, and certain other items is strictly forbidden, as are all imports from Israel and South Africa. No import taxes are levied beyond import tariffs. However, the country is seeking admission into the World Trade Organization, so its trade policies and practices may change in the near future in attempts to accommodate to WTO rules.

### 38 FOREIGN INVESTMENT

A small group of upper-class Sa'udis have traditionally held substantial investments overseas. These Sa'udis hold large demand deposits in US and Western European banks and considerable investments in commercial ventures, especially real estate, in Egypt and other Middle Eastern countries. Since the early 1970s, the Sa'udi government has vastly increased its overseas investments in the US, Western Europe, and Japan.

The Sa'udi government generally encourages foreign direct investment, especially in the case of joint ventures with Sa'udi partners. The foreign capital investment code specifies that foreign investments: (1) must be a "development project," (2) must generate technology transfer, and (3) a Sa'udi partner should own a minimum of 25% equity in the project. However, in 1999, the government began revising its laws on foreign investment in an effort to attract more overseas capital and to lure back the large private Sa'udi capital that is invested abroad. Principal foreign investors include the US (41% of the total), Japan, the UK, Switzerland, France, and Germany.

A major milestone was reached in three preparatory agreements signed on 3 June 2001 on natural gas development with eight leading oil companies, the first foreign direct investment (FDI) in Sa'udi Arabia's upstream sector since Aramco was nationalized in the period 1974 to 1980. The Sa'udis hope to attract as much as \$25 billion in FDI through the gas initiative.

### 39 ECONOMIC DEVELOPMENT

Sa'udi Arabia's first two development plans (1971–75 and 1976–80) stressed improvement of the country's economic infrastructure by expanding the highway system, port capacity, electric power output, water supply, and irrigated land. The third plan (1981–85), continuing the Sa'udi program of modernization without Westernization, aimed at diversifying and expanding the productive economic sectors of industry, mining, and agriculture. The government's long-term goal was to reduce the nation's dependence on oil exports and foreign labor. Expenditures for the 1981–85 plan were initially estimated (at current prices) at \$235.8 billion, compared with \$140 billion for the 1975–80 plan. At the end of the third development plan, most of the infrastructure had been put in place. The fourth development plan (1985–90) emphasized consolidation of the gains of the previous 15 years and rational planning of economic activity.

From the plan's emphasis on cost reduction and improvement of economic performance, it was clear that it had been drawn up under the assumption that the days of huge surpluses in the oil sector were over. Planned expenditures for the fourth plan were reduced several times. The fifth plan (1990–95) followed the goals of the fourth plan closely. Stressing economic diversification, this plan supported industry, agriculture, finance, and business services. An important goal of the sixth plan (1995–2000) was to reduce water consumption by 2% annually over the plan's period.

By the late 1990s, low oil prices had substantially reduced the GDP. Low revenues from oil and a rapidly expanding population put pressure on the government to put more emphasis on private sector expansion. Accordingly, the government began the process of privatizing government-owned entities in the telecommunications, transportation, and power generation sectors. However, there is concern that the growth in private sector jobs will not keep pace with the more quickly expanding population.

In April 2000, the government approved a new Foreign Direct Investment (FDI) Law, which allows 100% foreign ownership of investments, and established the General Investment Authority (SAGIA) to provide information and assistance for foreign investors.

### 40 SOCIAL DEVELOPMENT

Social insurance provides health care, disability, death, old age pension, and survivor benefits for workers and their families. Retirement is allowed at age 60, and benefits are provided at 2% of average monthly earnings times the number of years worked. This system is funded by 5% payroll deductions from workers, and 8% of payroll contributions from employers. The government provides an annual subsidy to the program. This program is compulsory for employees of firms with 10 or more workers, and is voluntary for smaller enterprises. The law requires employers to provide 100% of wages for a month of sick leave, and 75% of wages for two additional months.

The customs and regulations governing the behavior of women are strict even by the standards of the Islamic world. Despite the shortage of Sa'udi labor, the government is unsympathetic to the participation of women in the workplace; only 5% of the labor force is female. Extreme modesty of dress is required. Women wear the abaya, a long black garment, and they must also cover their face and head. Women are not permitted to drive motor vehicles. Women must enter public buses through a rear door, and sit in a segregated area. Women may not travel without the written permission of a male member of her family. This provision also applies to travel within the country. Domestic abuse is prevalent.

Segregation also occurs in the workplace, where women may only contact clients by telephone or fax. The Ministry of Commerce will not issue business licenses for women in fields that might require them to be in regular contact with government officials or male clients.

The government does not recognize international standards on human rights. Rights of privacy, freedom of speech, the press, assembly, association, religion, and movement are strictly curtailed. Security forces commit human rights abuses with the acquiescence of the government, even though they are nominally illegal. Corporal punishment, including amputation of limbs, beheading, and stoning, are used. Executions are carried out for crimes including alcohol trafficking, armed robbery, adultery and the practice of witchcraft. Most of those executed were foreigners.

### 41 HEALTH

From 1990 through 1995, the government budgeted SR63.9 billion for health and social services (of a total budget of SR497.6

billion). Targets included improving immunization coverage and achieving better regional coverage of health care provision (which remains inadequate). The public health care system is supplemented by a small but generally excellent private health sector. It is the government's intention to provide integrated health services free of charge, or at a nominal fee, to all citizens. The government also hopes to establish a local manufacturer of pharmaceuticals and medical equipment and supplies. Health personnel in 1990 included 21,110 physicians (about 1.82 per 1,000), 1,967 dentists, and 48,066 nurses (about 3.8 per 1,000). In 1991, there were 1,811 pharmacists. As of 1999, there were an estimated 1.7 physicians and 2.3 hospital beds per 1,000 people.

Despite recent advances, Sa'udi Arabia still suffers from severe health problems. A major cause of disease is malnutrition, leading to widespread scurvy, rickets, night blindness, and anemia, as well as low resistance to tuberculosis. Immunization rates for 1995 for children up to one year old were tuberculosis, 93%; diphtheria, pertussis, and tetanus, 97%; polio, 97%; and measles, 94%. As of 1999 the rates for DPT and measles were, respectively, 96% and 91%. Dysentery attacks all ages and classes and trachoma is common. A government campaign was successful in eradicating malaria. Typhoid is endemic, but acquired immunity prevents serious outbreaks of this disease. HIV prevalence in 1999 was 0.0 per 100 adults. There were 171 cases of AIDS reported in 1996. Sewage disposal and other health and sanitation facilities have been improved, but much still needs to be done. In 2000, 95% of the population had access to safe drinking water and 100% had adequate sanitation.

In 1960, life expectancy at birth was 43 years, but it averaged 73 years in 2000. During the same time period, infant mortality fell from 185 to 18 per 1,000 live births. The infant mortality rate stands considerably above those of middle-income countries. This fact may reflect the high infant death rate among the Bedouin, which has been estimated to account for about one-third of all infant deaths. The maternal mortality rate was 22 per 100,000 live births in 1998. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 37.2 and 5.9 per 1,000 people. Birth control was used by 21% of married women in 2000. In 1992, 97% of the population had access to health care services. As of 1999, total health care expenditure was estimated at 8% of GDP.

## 42 HOUSING

The continuing influx of rural people to towns and cities, coupled with the rise in levels of expectation among the urban population, has created a serious housing problem; improvement in urban housing is one of Sa'udi Arabia's foremost economic needs. Some 506,800 dwelling units were built during 1974–85, 389,000 by the private sector, with the help of the Real Estate Development Fund, and 117,800 by the Deputy Ministry of Housing and other government agencies. In 1984, 78,884 building permits were issued, 84% of these for concrete dwellings and 8% for housing units of blocks and bricks. In the oil districts, ARAMCO, through loans and other assistance, has encouraged construction of private homes and has built accommodations for its unmarried Sa'udi staff members. The Real Estate Development Fund, established in 1975, continues to provide interest-free loans for home construction by individuals as well as private companies.

## 43 EDUCATION

Until the mid-1950s, Sa'udi Arabia's educational system was primarily oriented toward religious schooling that stressed knowledge of the Qur'an (Koran) and Hadith (sayings of Muhammed and his companions). Except for basic arithmetic, reading, and writing, secular subjects were not taught in the schools. There was a highly developed oral culture, however. Nearly all of the students were boys; education of girls was virtually nonexistent and took place in the home, if at all. The

first school for girls was built in 1964, and now girls' schools exist around the country. The General Presidency for Girls' Education administers girls' schools and colleges. By 1999 females accounted for 48% of primary enrollment and 46% of secondary enrollment.

As of 1985, attendance in primary school was required by law. Education is free at all levels, including college and postgraduate study. The literacy rate in the 1960s was 3%. By 1995, it was 62.8%. However, literacy among women remains significantly lower than that of men. For the year 2000, adult illiteracy rates were estimated at 23.0% (males, 15.9%; females, 32.8%).

By 1997 there were 11,506 primary schools, with 2,256,185 pupils and 175,458 teachers. Student-to-teacher ratio stood at 13 to 1. Secondary schools had a total enrollment of 1,542,989 students and 119,881 teachers in the same year. In 1999, the pupil-teacher ratio at the primary level was 12 to 1, and 58% of primary-school-age children were enrolled in school.

Higher education was pursued in seven universities and 83 colleges. The principal universities are King Sa'ud University (formerly Riyadh University), founded in 1957, and King Abd al-'Aziz University of Jeddah, founded in 1967. All higher-level institutions had 273,992 pupils and 15,868 teachers in 1997. As of 1999, public expenditure on education was estimated at 7.5 % of GDP.

## 44 LIBRARIES AND MUSEUMS

The King Fahd National Library, founded in Riyadh in 1968, has 462,000 volumes. The largest library system is that of King Sa'ud University established in 1957, with 14 branches and a collection of more than 1.8 million volumes; the library at King 'Abd al-'Aziz University has 560,000 volumes. The library of the University of Petroleum and Minerals in Dhahran, with almost 335,000 volumes, is the nation's largest specialized collection. The largest public library, at Riyadh, contains 275,000 volumes.

There are 10,150 documented monuments and about a dozen museums in Sa'udi Arabia. The National Museum, originally opened at Riyadh in 1978, focuses on archaeology and ethnography. Major renovations were completed in 1999. Many of the other historic and cultural sites are religious in nature and the high figures for attendance reflect the huge numbers of Muslim pilgrims who visit the kingdom each year. Riyadh is also home to a local museum, an archaeological museum at King Sa'ud University, and a geological museum.

## 45 MEDIA

Postal, telephone, cable, and wireless services are regulated by the Ministry of Communications. Sa'udi Arabia is directly connected by radiotelephone with the US, other Arab countries, and Western Europe, and automatic internal lines connect most of the major cities. The telephone system has been expanded within the last decade and in 1998 some 3.1 million mainline telephones were in use, along with 1 million cellular phones.

All radio and television broadcasting emanates from the government-owned sources of Sa'udi Arabian Broadcasting Service, Sa'udi ARAMCO FM stations, Sa'udi-Arabian TV, and an ARAMCO channel in Dhahran. In 1998, there were 43 AM and 31 FM radio stations. There were 117 television stations in 1997. In 2000, there were 326 radios and 264 television sets for every 1,000 people. In 2001, there were about 42 Internet service providers serving nearly 1 million subscribers. Access to the Internet is very strictly monitored by the government.

The first newspaper in what is now Sa'udi Arabia was *Al-Qiblah*, the official publication of King Hussein of Hijaz, founded in 1915. With the end of the short-lived Hijaz kingdom in 1925, a Sa'udi-sponsored paper, called *Umm al-Qura* (*The Mother of Towns*, Mecca), was established. Newspapers are privately owned; but self-censorship is widely employed. The Ministry of Information appoints all editors-in-chief. Criticism of



the fundamental principles of Islam and of basic national institutions, including the royal family, is not permitted. The largest Arabic daily papers (with 2002 circulations) are *Al-Asharq Al-Awsat* (*The Middle East*, 224,990); *Al-Riyadh* (150,000); *Okaz* (107,600); and *Al-Jazirah* (*The Peninsula*, 94,000). Leading English-language dailies are the *Arab News* (110,000) and *Sa'udi Gazette* (50,000).

The government is said to severely limit freedom of speech and the press, punishing any criticism of Islam, the ruling family, or the government with detention and arrest.

#### 46 ORGANIZATIONS

Sa'udi social tradition, which emphasizes the exclusiveness of family, clan, and tribe, generally militates against the formation of other social organizations. The absence of political and economic organizations also is a result of the prevalence of tradition. However, there are chambers of commerce in Ad-Dammam, Jeddah, Mecca, Medina, and Riyadh.

The King Faisal Center for Research and Islamic Studies serves as a multinational cultural and educational organization. The Muslim World League works for the welfare of women and children. The Red Crescent Society is active.

National youth organizations include the Sa'udi Arabian Assembly of Muslim Youth and the Sa'udi Arabian Boy Scouts Association. There are a number of multinational, Arab sports associations based in the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

Sa'udi Arabia is one of the hardest places in the world to visit. Tourist visas are not issued and foreign visitors must show letters of invitation from Sa'udi employers or sponsors to enter the country. Every year, however, there is a great influx of pilgrims to Mecca and Medina, cities that non-Muslims are forbidden to enter. In 1998 the number of pilgrims totaled over two million. Tourist arrivals totaled 3,700,00 that year, with receipts of \$1.5 million. Evidence of a previous or planned trip to Israel is grounds for denial of admission to Sa'udi Arabia.

Traditional sports include hunting with salukis, falconry, and horse and camel racing. Modern sports facilities include the Riyadh Stadium, complete with Olympic-standard running tracks and soccer fields.

In 2001, the US State Department estimated the cost of staying in Riyadh at \$175 per day. Daily expenses for travel in other areas of the country varied, ranging from \$153 in Jeddah to \$220 elsewhere.

#### 48 FAMOUS SA'UDIS

Although Sa'udi Arabia has a relatively short history as a nation-state, it is heir to an Islamic civilization that developed from the teachings of Muhammad (570–632), born of the tribe of Quraysh in Mecca. The branch of Islam which claims most contemporary Sa'udis is that preached by Muhammad bin 'Abd al-Wahhab (1703?–91), a fundamentalist reformer.

The Sa'udi who has gained greatest renown outside the modern kingdom of Sa'udi Arabia is 'Abd al-'Aziz ibn 'Abd ar-Rahman al-Faysal as-Sa'ud, better known as Ibn-Sa'ud (1880–1953), the father of his country. Forced into exile with his family at a young age, he reconquered his patrimony and left behind him the state of Sa'udi Arabia.

In 1964, Faisal (Faysal ibn-'Abd al-'Aziz as-Sa'ud, 1906–75) was proclaimed king. In his role as prime minister, Faisal instituted many economic and social reforms, including the

abolition of slavery. Upon his assassination in March 1975, he was succeeded as king and prime minister by Khaled (Khalid ibn-'Abd al-'Aziz, 1913–82). Together with Crown Prince Fahd ibn-'Abd al-'Aziz (b.1920), King Khaled broadened the country's development policies.

After Khaled's death, Fahd became king; he has pursued the same cautious program of modernization as his two predecessors. Ahmad Zaki Yamani (b.1930), a former minister of petroleum and mineral resources, gained an international reputation as a spokesman for the oil-exporting countries.

#### 49 DEPENDENCIES

Sa'udi Arabia has no territories or colonies.

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# SINGAPORE

Republic of Singapore

**CAPITAL:** Singapore

**FLAG:** The flag consists of a red stripe at the top and a white stripe on the bottom. On the red stripe, at the hoist, are a white crescent opening to the fly and five white stars.

**ANTHEM:** *Long Live Singapore.*

**MONETARY UNIT:** The Singapore dollar (S\$) of 100 cents is a freely convertible currency. There are coins of 1, 5, 10, 20, and 50 cents and 1 dollar and notes of 2, 5, 10, 20, 50, 100, 500, 1,000, and 10,000 dollars. S\$1 = US\$0.5617 (or US\$1 = S\$1.78) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force, but some local measures are used.

**HOLIDAYS:** Major Western, Chinese, Malay, and Muslim holidays are celebrated, some of which fall on annually variable dates because of the calendars used. Major holidays include New Year's Day, 1 January; Chinese New Year; Good Friday; Vesak Day (Buddhist festival); Labor Day, 1 May; Hari Raya Puasa (Muslim festival); National Day, 9 August; Hari Raya Haji (Malay Muslim festival); Dewali; Christmas, 25 December.

**TIME:** 8 PM = noon GMT.

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

The Republic of Singapore, the second smallest country in Asia, consists of Singapore Island and several smaller adjacent islets. Situated in the Indian Ocean off the southern tip of the Malay Peninsula, Singapore has an area of 693 sq km (268 sq mi). Comparatively, the area occupied by Singapore is slightly more than 3.5 times the size of Washington, D.C. Singapore Island extends 41.8 km (26 mi) ENE–WSW and 22.5 km (14 mi) SSE–NNW and has a coastline of 193 km (120 mi), including about 84 km (52 mi) along the water channel between the island and the Malay Peninsula. Singapore is connected to the nearby western portion of Malaysia by a causeway 1,056 m (3,465 ft) in length across the narrow Johore Strait. Singapore's position at the eastern end of the Strait of Malacca, which separates western Malaysia and the Indonesian island of Sumatra, has given it economic and strategic importance out of proportion to its small size. Singapore's capital city, Singapore, is located on the country's southern coast.

## <sup>2</sup>TOPOGRAPHY

Singapore Island is mostly low-lying, green, undulating country with a small range of hills at the center. The highest point of the island is Bukit Timah (166 m/545 ft). There are sections of rainforest in the center and large mangrove swamps along the coast, which has many inlets, particularly in the north and west. Singapore's harbor is wide, deep, and well protected.

## <sup>3</sup>CLIMATE

The climate is tropical, with heavy rainfall and high humidity. The range of temperature is slight; the average annual maximum is 31°C (88°F), and the average minimum 24°C (75°F). The annual rainfall of 237 cm (93 in) is distributed fairly evenly throughout the year, ranging from 39 cm (15 in) in December to 28 cm (11 in) in May. It rains about one day in two.

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

Singapore Island is mostly denuded, the dense tropical forest that originally covered it being mostly cleared. There is some rain forest in the central area of the island, however, as well as extensive mangrove swamps along the coast. Urban development has limited animal life.

## <sup>5</sup>ENVIRONMENT

Environmental responsibility for Singapore is vested in the Ministry of the Environment and its Anti-Pollution Unit. Air quality is protected by the Clean Air Act, as adopted in 1971 and amended in 1975 and 1980, and by the Clean Air (Standards) Regulations of 1975. Regulations limiting the lead content of gasoline were imposed in 1981, and emissions standards for motor vehicles were tightened in 1986. Air pollution from transportation vehicles is a problem in the nation's growing urban areas. In 1992, Singapore was among 50 nations with the world's highest levels of industrial carbon dioxide emissions, which totaled 49.8 million metric tons, a per capita level of 17.99 metric tons. In 1996, the total rose to 65.8 million metric tons.

Water quality is regulated through the Water Pollution Control and Drainage Act of 1975 and the Trade Effluent Regulations of 1976. Singapore does not have enough water to support the needs of its people. In total, the nation about has 0.1 cubic miles of water. Four percent is used for farming and 51% for industrial purposes. Pollution from the nation's oil industry is also a significant problem, and its cities produce about 0.9 million tons of solid waste per year. Waste water is treated and recycled to conserve water supplies. Altogether, Singapore has lost 20 to 30% of its original mangrove area.

In 2001, two plant species, six mammal species, and nine bird species were considered to be in danger of extinction. Endangered species in Singapore include the Ridley's leaf-nosed bat, Chinese egret, yellow-crested cockatoo, batagur, tigers, and the Singapore roundleaf horseshoe bat.

## 6 POPULATION

The population of Singapore in 2003 was estimated by the United Nations at 4,253,000, which placed it as number 117 in population among the 193 nations of the world. In that year approximately 7% of the population was over 65 years of age, with another 21% 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 1.69%, with the projected population for the year 2015 at 4,707,000. The population density in 2002 was 6,852 per sq km (17,746 per sq mi).

Singapore is virtually a city-state, and the entire population (100%) is considered urban. The capital city, Singapore, and the surrounding area, had a population of 3,522,000 in 2002. According to the United Nations, the urban population growth rate for 2000–2005 was 1.0%.

## 7 MIGRATION

Singapore had only a few Malay fishermen as inhabitants at the time of its founding as a British trading post in 1819. It was subsequently, and quite rapidly, populated by immigrant peoples, primarily Chinese but also Malays (from Sumatra as well as adjacent Malaya) and Indians (who took advantage of common British governance to migrate to Singapore in search of better employment). Thus immigration, rather than natural increase, was the major factor in Singapore's fast population growth through the mid-20th century.

In November 1965, following separation from Malaysia, Singapore's newly independent government introduced measures to restrict the flow of Malaysians entering the country in search of work. These immigrants, who averaged 10,000 a year up to 1964, had to establish residence for several years to qualify for citizenship. In addition, all non-citizens were required to apply for a work permit or employment pass. Immigration is now generally restricted to those with capital or with special skills. In 2000, the net migration rate was 19.6 migrants per 1,000 population. There were 1,352,000 migrants living in Singapore in that year.

## 8 ETHNIC GROUPS

The people of Singapore are predominantly of Chinese origin. In a 2002 report, about 77% were ethnic Chinese (most of them, however, born in Singapore or in neighboring Malaysia). Some 14% were Malays; 8% were Indians (including Pakistanis, Bangladeshis, and Sri Lankans); and 1.4% were of other varied ethnic origins.

## 9 LANGUAGES

There are four official languages: Chinese (Mandarin dialect), Malay, English, and Tamil. English is the principal medium of government and is widely used in commerce. By 1987, under a government mandate, English was made the primary language of the school system. Malay is the national language.

## 10 RELIGIONS

There is complete separation of state and religion in Singapore. Freedom of religion is both constitutionally guaranteed and honored in practice. However, a 2002 report indicated that Jehovah's Witnesses and the Unification Church had been banned by the government. The Chinese for the most part adhere in varying degrees to Buddhism, Taoism, and Confucianism. According to a 2000 census, these faiths, as well as traditional ancestor worship, are practiced by about 51% of the population. Malays and persons with origins in the Pakistani and Bangladeshi portions of the Indian subcontinent are almost exclusively Muslim. About 15% of the population practice Islam. About 15% of the population is Christian, with Protestants

outnumbering Roman Catholics by about two to one. Most of the Indian minority (4%) are Hindus. There are also small Sikh, Jewish, Zoroastrian, and Jain communities.

## 11 TRANSPORTATION

Singapore's history is partly the history of the island-country's important regional role as a transportation link between East and West and between the mainland and insular portions of Southeast Asia. As long ago as 1822—only three years after the establishment of a British colonial presence on the island—1,575 ships called at the new port of Singapore from nearby islands, Europe, India, and China. With a natural deepwater harbor that is open the year round, Singapore now ranks as the largest container port in the world, with anchorage facilities that can accommodate supertankers. Ships of some 600 shipping lines, flying the flags of nearly all the maritime nations of the world, regularly call at Singapore. In 2001, Singapore's merchant fleet was comprised of 876 ships, totaling 20,686,612 GRT.

Commercial air service was inaugurated in Singapore in 1930. In 2001 there were 9 airports, all of which had paved runways. The two principal air facilities are Changi International and Seletar Airport. Singapore's own flag carrier is Singapore Airlines. In 2001, 16,373,600 passengers were carried on scheduled domestic and international flights.

There were 3,150 km (1,957 mi) of roadways in 2002, of which 3,066 km (1,905 mi) were paved, including 150 km (93 mi) of expressways. In 2001, there were 545,251 motor vehicles, of which 405,354 were automobiles. Singapore's sole rail facility is a 38.6-km (24-mi) section of the Malayan Railways, which links Singapore to Kuala Lumpur. There is also an 83-km (52-mi) mass transit system with 48 stations.

## 12 HISTORY

Some historians believe a town was founded on the Singapore Island as early as the 7th century, while other sources claim that "Singapura" (Lion City) was established by an Indian prince in 1299. Historians believe that during the 13th and 14th centuries, a thriving trading center existed until it was devastated by a Javanese attack in 1377. Singapore, however, was virtually uninhabited when Sir Stamford Raffles, in 1819, established a trading station of the British East India Company on the island. In 1824, the island was ceded outright to the company by the Sultan of Johore, the Malay state at the extreme southern end of the Peninsula. In 1826 it was incorporated with Malacca (Melaka, Malaysia) and Penang (Pinang, Malaysia) to form the Straits Settlements, a British Crown Colony until World War II. The trading center grew into the city of Singapore and attracted large numbers of Chinese, many whom became merchants.

With its excellent harbor, Singapore also became a flourishing commercial center and the leading seaport of Southeast Asia, handling the vast export trade in tin and rubber from British-ruled Malaya. In 1938, the British completed construction of a large naval base on the island, which the Japanese captured in February 1942 during World War II, following a land-based attack from the Malay Peninsula to the north.

Recaptured by the United Kingdom in 1945, Singapore was detached from the Straits Settlements to become a separate crown colony in 1946. Under a new constitution, on 3 June 1959, Singapore became a self-governing state, and on 16 September 1963, it joined the new Federation of Malaysia (formed by bringing together the previously independent Malaya and Singapore and the formerly British-ruled northern Borneo territories of Sarawak and Sabah). However, Singapore, with its predominantly urban Chinese population and highly commercial economy, began to find itself at odds with the Malay-dominated central government of Malaysia. Frictions mounted, and on 9 August 1965, Singapore separated from Malaysia to become wholly independent as the Republic of Singapore. Harry Lee

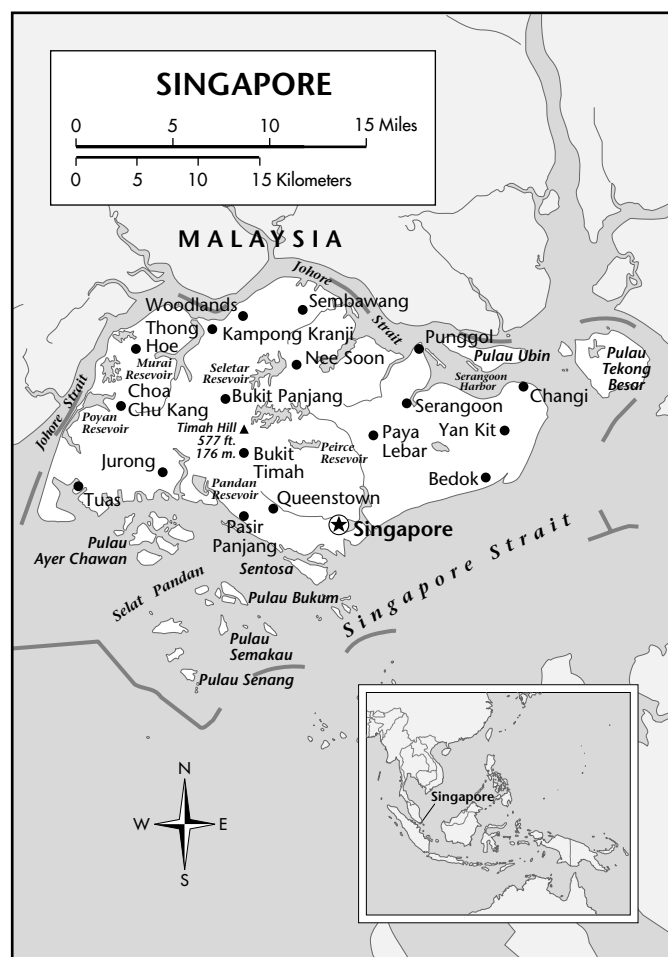
Kuan Yew, a major figure in the move toward independence, served as the country's prime minister from 1959 until 1990. Singapore, Indonesia, Malaysia, the Philippines, and Thailand formed the Association of South-East Asian Nations (ASEAN) in 1967.

The People's Action Party (PAP) founded in 1954 has been the dominant political party winning every general election since 1959. The PAP's popular support rested on law and order policies buttressed by economic growth and improved standards of living. Although the PAP regularly carried 60–75% of the popular vote, it managed to capture virtually all seats repeatedly in the National Assembly. The PAP won all parliamentary seats in the general elections from 1968 to 1980. In the 1981 by-election J. B. Jeyaretnam, secretary-general of the Workers' Party, won a seat; he maintained it in the 1984 general election. Chiam See Tong, leader of the Singapore Democratic Party (SDP), won another seat for the opposition in the same election. (See Political Parties and Government.) In March 1985 the third state president, Devan Nair, former trade unionist and member of the Singapore's "old guard," resigned from office under allegations related to alcoholism. The new president, Wee Kim Wee, took office in August. In May and June 1987 the government detained 22 persons under the Internal Security Act (ISA) for alleged involvement in a "Marxist conspiracy." These detentions triggered international protests by those critical of the government's abuse of human rights, including detention without trial and allegations of torture. Most of the alleged conspirators were released by December, but eight were rearrested in April 1988 after issuing a joint press statement regarding the circumstances of their detention. Two of the eight remained in custody until June 1990.

The September 1988 general election took place under an altered electoral system that increased the total seats in parliament from 79 to 81. The new constituencies consisted of 42 single-member districts and the reorganization of the other 39 seats into 13 group representation constituencies (GRCs). Teams of three representatives for each party contested the GRCs; at least one of which must be from an ethnic minority, i.e., non-Chinese. Ostensibly these changes were to ensure minority participation, but at the same time small and/or resource-poor opposition parties were handicapped by a requirement to field three candidates.

In November 1992 the media announced that Deputy Prime Minister Lee Hsien Loong (son of Lee Kuan Yew) and Ong Teng Cheong were diagnosed with cancer. (The former was pronounced fully cured in 1994, but has been little seen in political circles.) On 28 November 1990 Lee Kuan Yew, prime minister of Singapore for over thirty-one years, transferred power to Goh Chok Tong, the former first deputy prime minister. Lee remained in the cabinet as senior minister to the prime minister's office and retained the position of secretary-general of the PAP. Singapore's first direct presidential elections were held on 28 August 1993 with Ong Teng Cheong becoming the first elected president.

An incident that garnered worldwide attention was the Singapore government's arrest in October 1993 of nine foreign youths charged with vandalism involving the spray painting of some 70 cars. Michael Fay, an 18-year-old American student and the oldest in the group, was suspected to be the leader. Under police interrogation Fay admitted his guilt, pleaded guilty in court to two counts of vandalism and one count of receiving stolen property. In March 1994 Fay was sentenced to four months in prison, a fine of US\$2,230 and six strokes of the cane. On 7 March 1994 President Clinton urged Singapore to reconsider the flogging of Fay amid a failed appeal. A plea to the Singaporean president for clemency was rejected, but as a "goodwill gesture towards President Clinton," the sentence of caning was reduced



LOCATION: 1°9' to 1°29' N; 103°38' to 104°6' E. TERRITORIAL SEA LIMIT: 3 miles.

from six strokes to four. The sentence was carried out on 5 May 1994.

In 1994, Singapore made international news when the government sued the *International Herald Tribune* for libel over an editorial the paper published suggesting that Prime Minister Goh was simply a figurehead and that ultimate power rested, as it always had, with Senior Minister and former Prime Minister Lee. The Singapore High Court, in a move that halted critical comments from the press, ruled in favor of the government and ordered the *Herald Tribune* to pay \$667,000 in damages to Goh, Lee, and Deputy Prime Minister Lee. In 1995, the government again was criticized in the international press, this time in *The New York Times*, in which columnist William Safire called the country a dictatorship. Singaporean leaders took center stage in the international arena and proclaimed their right to reject Western values. They claimed that Asian values eschewed individual liberty taking precedence over social stability and that these values promoted an increasingly wealthy, clean, and hospitable city-state devoid of social pathologies that plague both the West and other large Asian cities. The subsequent sentencing, on December 1, 1995 of Nick Leeson, an investment banker who single-handedly destroyed Barings through speculative investments in the Japanese stock market, seemed to confirm the bankruptcy of individual greed.

Parliamentary elections were held in 1997 and, unsurprisingly, the PAP retained its vast majority—opposition parties won only 2 of 83 seats. One seat, that won by Tang Liang Hong, remained

vacant in 1997 as Tang fled the country fearing government persecution—including lawsuits, freezing of bank accounts, and restrictions on travel—which began in earnest after his election. Tang's victory was seen as especially threatening to the rigid regime of the PAP because during the campaign Tang suggested that the English-speaking section of the ruling class monopolized power and that the Chinese needed to assert more control. These statements branded Tang as a Chinese chauvinist, an inflammatory label in the ethnically divided country.

In February 2000, finance minister Richard Hu rescinded some tax cuts introduced previously but also announced positive economic growth of 4.5% to 6.5% for calendar year 2000. Coming after two years of budgetary uncertainty related to the Asian economic crisis, the government also announced a budget surplus. As a result of the world economic slowdown in 2001–2002, growth was expected to reach 3.1% in 2003 and accelerate to 5.1% in 2004.

On 28 April 2001, an unprecedented anti-government rally was held, the first legally sanctioned demonstration outside of an election campaign. Over 2,000 people gathered in support of opposition leader J. B. Jeyaretnam who faced bankruptcy and thus expulsion from parliament. Jeyaretnam owes hundreds of thousands of dollars in defamation lawsuits brought by senior government officials and their supporters.

In September 2001, Malaysia and Singapore came to a series of agreements over issues that had strained relations between them for years. Largely prodded by concern over the growing influence of Islam in Malaysian politics, Singapore agreed to a Malaysian proposal that the causeway linking the two countries be demolished and replaced by a bridge and undersea tunnel after 2007. Malaysia agreed to supply water to Singapore after two water agreements expire in 2011 and 2061. Also discussed were disputes over the use of Malaysian-owned railway land in Singapore, and requests by Singapore to use Malaysian air space.

On 3 November 2001, parliamentary elections were held in which the PAP won 82 out of 84 seats. Opposition candidates contested only 29 of the seats. The next elections are due to be held 25 June 2007.

Following the 11 September 2001 terrorist attacks on the United States, the US urged countries around the world to increase anti-terrorist measures they might take. Southeast Asia was a primary focus of attention. In May 2002, the 10 members of ASEAN pledged to form a united anti-terror front and to set up a strong regional security framework. The steps include introducing national laws to govern the arrest, investigation, prosecution, and extradition of suspects. As well, they agreed to exchange intelligence information and to establish joint training programs such as bomb detection and airport security. As of December 2002, 5 of the ASEAN nations (Indonesia, the Philippines, Malaysia, Cambodia and Thailand) had acceded to the “Agreement on Information Exchange and Establishment of Communication Procedures” to fight terrorism and other transnational crime. Singapore said it was not ready to join the pact.

In December 2001, Singapore arrested 15 individuals believed to be part of a terrorist cell with links to Osama bin Laden's al-Qaeda network. Two suspects were released, but the others belonged to Jemaah Islamiya (JI), an Islamic organization with cells in Singapore, Malaysia, and Indonesia. The cell's plot was to destroy key buildings in Singapore, including the American Embassy. JI's ambition initially was to create an Islamic Indonesia. However, the group expanded its goals to include an Islamic archipelago, Dauliah Islam Nusantara, to include Malaysia, the southern Philippines, and Singapore in a larger Islamic Indonesia. In August 2002, Singapore arrested 21 terrorist suspects who allegedly carried out “reconnaissance and surveys” of potential terrorist attack targets in Singapore. They were purportedly members of Jemaah Islamiyah.

## <sup>13</sup>GOVERNMENT

The constitution of the Republic of Singapore, as amended in 1965, provides for a unicameral parliamentary form of government, with a president who, prior to 1991, served as titular head of state. Singapore practices universal suffrage, and voting has been compulsory for all citizens over 21 since 1959.

In 1993 the unicameral legislature consisted of an 81 elected-member parliament and six nominated members (NMPs) appointed by the president. The maximum term for parliamentary sessions is five years, although elections may be called at any time within that period. A general election is held within three months of dissolution. The number of parliamentary seats has increased with each general election, since the general election seating Singapore's first parliament, 58 seats (1968), 60 seats (1972), 69 seats (1976), 75 seats (1980), 79 seats (1984), 81 seats (1988), and 84 seats (2002).

Until the 1988 election, all constituencies were single-member constituencies. In 1988, sixty of the original 81 constituencies (out of the increased number for 1988, i.e., from 79 in 1984 to 81 in 1988) were reorganized into 13 group representation constituencies (GRCs). In each GRC teams of three candidates must be fielded, one of who must be from a minority community, i.e., of an ethnic minority group, Malay, Indian, or an Other (all persons other than Chinese, Malay, or Indian). A 1984 constitutional amendment allowed for the presence of at least three opposition representatives as non-constituency (nominated) members of parliament (NMPs), and in 1990 a law increasing their number was passed. Accordingly, up to six NMPs could be appointed from among opposition candidates who were unsuccessful in an election; these NMPs are given limited voting rights.

In the 1991 general election, 60 members were elected from the 15 four-member GRCs, 21 from single-member constituencies, and the president appointed 6 nominated members of parliament. Changes to the electoral procedures included the increase to a minimum of four candidates to contest a GRC and the maintenance of minority qualification for the one person representing the minority community.

The prime minister, who commands the confidence of a majority of parliament, acts as effective head of government. The prime minister appoints a cabinet that, in 1993, consisted of a senior minister, two deputy prime ministers, and 11 other ministers. Prior to 29 November 1991 the president of the republic was elected by parliament to a four-year term. Since 1991, under an amendment to the constitution passed by parliament, the president is no longer elected by parliament but by the electorate, and has custodial powers over the country's reserves, as well as a major role in deciding key appointments to the judiciary, civil service and statutory boards. The president is elected for a term of six years. The first direct presidential elections were held on 28 August 1993, electing Ong Teng Cheong. In July 1999, as his wife was dying of cancer, Ong announced he was not seeking a second term. Ong himself had been diagnosed with lymphoma in 1992 when he was deputy prime minister. He underwent treatment but the illness recurred in July 1998. Sellapan Rama (S. R.) Nathan was elected president unopposed on 28 August 1999. Ong died 7 February 2002.

Several constitutional reforms were enacted in 1996 and 1997. In 1996, parliament enacted governmental reforms limiting the power of the president, curtailing his veto power—only granted in 1991. Under the new rules, parliament can call a referendum if the president vetoes constitutional changes or other measures. In 1997, the number of nominated members of parliament increased from six to nine. However, the government also moved to tighten control over the political process in 1999 with the PAP filing a petition to close the Workers Party for failure to pay damages and costs associated with a defamation case. Earlier in 1998, the

government banned all political parties from producing videos and appearing on television to discuss politics.

## 14 POLITICAL PARTIES

Singapore in the late 1980s was effectively a single-party state. The ruling People's Action Party (PAP) of former prime minister Lee Kuan Yew has dominated the country since 1959. In 1961, the radical wing of the PAP split from Lee's majority faction to form a new party, the Socialist Front (SF), also known as the Barisan Socialis. In 1966, 11 SF members resigned their seats in parliament, and 2 others joined the underground opposition to the Lee government, leaving the PAP as the sole party represented in parliament. In the general elections of 1972, 1976, and 1980, the PAP won all seats in parliament, but carried a declining percentage of the total votes; 65 seats (84.4%); 69 seats (72.4%); and 75 seats (75.5%) [Far Eastern Economic Review (FEER) 77.7%], respectively. The Workers' Party (WP), the strongest opposition party, won its first parliamentary seat in a 1981 by-election; under its leader, Joshua B. Jeyaretnam, the WP has been critical of undemocratic practices within the PAP government. In the 1984 general elections, the PAP won 77 of the 79 seats, even though it captured only 62.9% of the popular vote, compared with 75.5% in 1980.

In the 1984, 1988, and 1991 general elections opposition parties gained small ground, and the PAP continued to garner a declining percentage of the total votes: 77 seats (62.9%) PAP [FEER 64.8%], 1 seat Workers Party (WP), 1 seat Singapore Democratic Party (SDP); 80 seats (61.7%) PAP [FEER 63.2%], 1 seat SDP; 77 (61%) PAP [FEER 61%], 1 seat WP, 3 seats SDP, respectively. In the 1991 elections Chiam See Tong was again the winner for the SDP, along with Ling How Doong and Cheo Chai Chen. The Workers' Party MP was Low Thai Khiang.

The two other seats went to J. B. Jeyaretnam (WP) and to Chiam See Tong of the Singapore Democratic Party (SDP), the two main opposition parties that are tolerated but subject to almost continual harassment by the government. For instance, in 1984, Jeyaretnam was accused of making false statements involving irregularities in the collection of WP's funds; he was acquitted of two of three charges and fined. In 1986 the government appealed the case and the higher court set aside the initial judgment; Jeyaretnam was again fined and jailed for one month, enough to disqualify him from parliament and ban him from contesting elections for five years. On the basis of his criminal convictions he was disbarred and denied a pardon. He was refused permission to appeal against the conviction and sentence that resulted in his disqualification as an MP. But on appeal to the Privy Council against the decision to disbar him, he was vindicated and allowed to practice law again. In October 1991 Jeyaretnam avoided bankruptcy by paying legal costs in a defamation suit he lost, filed by Lee Kuan Yew over remarks made by Jeyaretnam in a 1988 election rally. On 10 November 1991, the ban on Jeyaretnam standing election expired. By avoiding bankruptcy he would be able to contest the by-elections that Prime Minister Goh promised to hold in the next 12–18 months. However, the WP failed to field the four required candidates for a GRC.

Then, in March 1993 Dr. Chee Soon Juan, an opposition politician from the SDP who ran against Prime Minister Goh Chok Tong in the 1992 by-election, was expelled from his post as lecturer in the Department of Social Work and Psychology at the National University of Singapore (NUS) based on claims of "dishonest conduct" for using US\$138 out of his research grant to courier his wife's doctoral thesis to a US university. In the end, Dr. Chee ended up losing his case to be reinstated.

The main opposition parties are the SDP and the WP. Smaller minority parties are the United People's Front, which is also critical of antidemocratic aspects of the government rule and is

pro-Malaysian; the Singapore Malays' National Organization; and the Singapore Solidarity Party, formed in 1986 by three former leaders of the SDP. There were 22 registered political parties at the beginning of 1993: Singapore Chinese Party; Persatuan Melayu Singapura; Partai Rakyat, Singapore State Division; Angkatan Islam; The Workers' Party; Pertubohan Kebangsaan Melayu Singapura; People's Action Party (PAP); United People's Party; Barisan Socialis (BS), Socialist Front (SF); Parti Kesatuan Ra'ayat (United Democratic Party); Singapore Indian Congress; Alliance Party Singapura; United National Front; National Party of Singapore; The People's Front; Justice Party, Singapore; Democratic Progressive Party; People's Republican Party; United People's Front; Singapore Democratic Party (SDP); National Solidarity Party (NSP); Singapore National Front. The Malay Communist Party and the underground Malayan National Liberation Front are illegal.

In 1997, parliamentary elections were again held and, again, the PAP maintained its virtual monopoly of seats. Of 83 seats up for election, the long-ruling party captured 81 with 47 unopposed. The two opposition leaders Jeyaretnam and Tang Liang Hong, both with the WP, won seats. After the election, in a move that has been commonplace in Singapore, leaders of the PAP, including Prime Minister Goh and Senior Minister (and longtime leader) Lee sued Tang for defamation. Tang promptly fled the country, saying he feared for his safety as the government froze his assets and imposed travel restrictions on his family. Jeyaretnam continued to face bankruptcy and the loss of his parliamentary seat as well, from a defamation payment awarded against him for allegedly defaming a PAP parliamentarian and nine other members of the Tamil community in an article written by a colleague in 1995. In the 1997 elections, the SDP lost all three seats it had won in the 1991 round.

In parliamentary elections held on 3 November 2001, the PAP won 82 out of 84 seats with 75.3% of the vote. Opposition candidates contested only 29 of the seats. The WP took one seat, as did the Singapore Democratic Alliance (SDA), which includes the Singapore People's Party (SPP), Singapore Democratic Party (SDP), National Solidarity Party, Singapore Justice Party, and Singapore Malay National Organization SDA. The opposition parties complained that constituency changes and a range of regulations imposed by the PAP made it more difficult for them to win votes. The Parliamentary Elections Act was amended, curbing the use of the Internet for political campaigning and banning the publication of opinion polls during elections.

## 15 LOCAL GOVERNMENT

Singapore, veritably a city-state, has no local government divisions. When the People's Action Party (PAP) came to power in 1959, the post-colonial City Council was abolished. The former city council and rural board were integrated into departments of the central government. The Town Councils Act enacted in June 1988 reintroduced a local organizational structure. Town councils were formed to take over the management and maintenance of the common properties of housing estates within towns. As of 1 March 1991, 27 town councils had been formed. After the general elections of August 1991, five town councils were dissolved and three new town councils were established, bringing the number of town councils to 25. In 1997, the number of town councils was reduced to 16.

Prime Minister Goh announced the concept of the creation of Community Development Councils (CDCs) in 1996. Set up after the 1997 general election as social parallels to the town councils, the CDCs were established to improve community bonding and to manage a spectrum of social services, from child-care centers to public welfare assistance. Originally 9 CDCs were established; in November 2001, their number was reduced to 5. They are South West, North West, Central Singapore, South East, and

North East. They are managed by a council comprising a mayor and between 12 and 80 council members.

## 16 JUDICIAL SYSTEM

Singapore's legal system is based on British common law. The judiciary includes the Supreme Court as well as subordinate courts. The subordinate courts are the magistrates' courts, trying civil and criminal offenses with maximum penalties of three years' imprisonment or a fine of S\$60,000; the district courts, trying cases with maximum penalties of ten years' imprisonment or a fine of S\$250,000; the juvenile courts, for offenders below the age of sixteen; the coroners' courts; and the small claims courts, which hear civil and commercial claims for sums of less than S\$10,000. The Supreme Court is headed by a chief justice and was divided into the High Court, the Court of Appeal, and the Court of Criminal Appeal. The High Court has unlimited original jurisdiction in both criminal and civil cases but ordinarily chooses to exercise such jurisdictional authority only in major cases. In its appellate jurisdiction, the High Court hears criminal and civil appeals from the magistrates' and district courts. Appeal in a civil case heard by the High Court in its original jurisdiction was to the Court of Appeal, and in a criminal case, to the Court of Criminal Appeal.

In 1993 the former Court of Appeal (for civil cases) and the Court of Criminal Appeal were combined to form a single Court of Appeal. This reform was part of an overall plan to the eventual elimination of referrals to the Privy Council in London. All appeals to the Privy Council in London were eliminated in 1994.

The president appoints judges of the Supreme Court on the recommendation of the prime minister after consultation with the chief justice. A Legal Service Commission supervises and assigns the placement of the subordinate court judges and magistrates who have the status of civil servants; however, the president appoints subordinate courts judges on the recommendation of the chief justice. While the constitution provides for an independent judiciary and the judicial system provides a fair and efficient judicial process, the Internal Security Act allows the government to arrest, detain, and prosecute those who are deemed to threaten national security. Defendants have the right to be present at the trials, to have an attorney, and to confront witnesses against them.

## 17 ARMED FORCES

In 2002 Singapore's armed forces numbered 60,500 active personnel supported by around 312,500 reservists. The army had an estimated 50,000 personnel, including 3 combined arms divisions; the navy had 4,500 personnel and a fleet of 24 ships, including six corvettes and six missile craft, and two *Challenger* submarines. The air force totaled 6,000 personnel operating 126 combat aircraft and 28 armed helicopters. Paramilitary forces numbered an estimated 96,300 including a police force and a civil defense force. Singapore participated in three international peacekeeping operations, and had troops abroad in five different regions. The 2001–02 defense budget was \$4.5 billion or approximately 4.9% of GDP.

## 18 INTERNATIONAL COOPERATION

Singapore follows a policy of cooperation with international bodies and the community of nations. Having joined the UN on 21 September 1965, Singapore participates in ESCAP and all the nonregional specialized agencies except FAO, IDA, IFAD, UNESCO, and UNIDO. It is a participant in the Asian Development Bank, the Colombo Plan, the Commonwealth of Nations, and G-77 and has joined the WTO and signed the Law of the Sea. Probably its most important international association is its membership—along with Cambodia, Laos, Myanmar,

Vietnam, Indonesia, Malaysia, Thailand, the Philippines, and Brunei—in ASEAN. Singapore has played a leading part in this important regional grouping, which has sought to maximize economic cooperation among its member states, to regularize political consultation on the part of the constituent governments, and to limit foreign political and military interference in the area.

## 19 ECONOMY

Historically, Singapore's economy was based primarily on its role as an entrepôt for neighboring countries due to its strategic geographic location at the entrance to the Straits of Malacca. It did not have minerals or other primary products of its own to export, but it served a major economic function by processing and transshipping the goods of nearby lands. Its most significant natural resource is a deep water harbor. As a result of these circumstances, Singapore became highly active in shipbuilding and repair, tin smelting, and rubber and copra milling. Until about 1960, however, its economy was frequently shaken by major fluctuations in its export earnings (particularly from rubber and tin) as a consequence of often adverse commodity and price trends. Since the early 1960s, Singapore has attempted to break away from this economic pattern. Its government embarked on an ambitious and largely successful program of promoting industrial investment (both from abroad and locally), developing industrial estates, and providing industrial financing and technical services.

By the early 1980s, Singapore had built a much stronger and diversified economy, which gave it an economic importance in Southeast Asia out of proportion to its small size. Government plans during the first half of the 1980s called for realigning industrial activities from traditional labor-intensive, low-wage activities to capital-intensive, high-wage and high-technology activities, notably the electronic industries and oil refining. In 1985, however, Singapore's economy declined for the first time in 20 years. One of the reasons for the decline was high wages, which made Singaporean products less competitive on the world market. Other reasons for the economic downturn included a slumping demand for oil and electronic products and the economic woes of Malaysia, Indonesia, and other important trading partners.

By the late 1980s, Singapore had begun to further diversify its economy, making it capable of providing manufacturing, financial, and communications facilities for multinational firms. In the late 1980s one of the fastest growing sectors of Singapore's economy was international banking and finance, accounting for some 25% of GDP. It ranked behind Tokyo and Hong Kong amongst financial service centers in the Southeast Asia region. In 1989 earnings from manufacturing accounted for 30% of GDP.

In the 1990s productivity increased as did labor costs. Export growth in high-technology manufactured goods signaled Singapore's success in shifting to higher value-added production. The electronics industry accounted for the largest share of value-added in manufacturing. Manufacturing was dominated by the production of computer peripherals and oil processing. Between 1992 and 1995, property prices double, reaching their peak in 1996. In the five years 1993 to 1997, GDP growth averaged 8.84%. In June 1997, Hong Kong reverted to Chinese rule, triggering the Asian financial crisis. In Singapore, GDP growth dropped to 1.5% in 1998 and residential property prices fell 40%. Singapore's sensitivity to the external economic environment, with trade running 300% of GDP, is extreme. Nevertheless, Singapore weathered the crisis without a contraction, and in 1999 growth had recovered to 5.4%. Driven by the world-wide boom in IT demand and robust recoveries in domestic consumption and investment, GDP growth soared to 9.9% in 2000. However, the dot.com bust in 2001 to the

economy's first yearly contraction since 1985, of 2%. Recovery began in the second quarter of 2002, and though weak because continued low export demand, growth was a positive 2.2% for the year. Projections for 2003 are for only a 4.8% growth.

Other constraints on Singapore's economic performance are labor shortages, rising labor costs, and the declines of productivity—although in by the second and third quarter of 2002, gains in productivity were averaging 6.1% compared to decreases averaging 7.75% in the last half of 2001. Singapore maintains one of the most liberal trading regimes in the world, and has regularly been ranked one of the least corrupt and most competitive countries. The government is a major and active player in the economy, owning substantial productive assets (land and capital). The government directs and targets the economy through laws, regulations and incentives, and participates in business ventures through Singapore's unique hybrid, the government-linked company (GLC). Monetary discipline hold inflation tightly in check, with consumer prices show mild deflation (-0.4% to -0.9%) in 2002. Unemployment rose to 4.7% in 2001, and remained above 4% throughout 2002, a high level for Singapore. Per capita income estimate by the CIA in purchasing power parity terms was \$24,700, one of the highest in the world.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Singapore's gross domestic product (GDP) was estimated at \$106.3 billion. The per capita GDP was estimated at \$24,700. The annual growth rate of GDP was estimated at -2.2%. The average inflation rate in 2001 was 1.5%. 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 industry accounted for 33% of GDP and services 67%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$10,755. 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 2%. Approximately 15% of household consumption was spent on food, 5% on fuel, 3% on health care, and 14% on education.

## 21 LABOR

In 2000, Singapore's employed workforce totaled 2.19 million. Of this number, 30% were employed in industry and 70% in the service sector. About 24% of the labor force consists of some 600,000 foreign workers. The unemployment rate was 4.7% in 2001.

In 2001, there were 72 registered trade unions in Singapore, with some 350,000 members. All but nine were affiliated with Singapore's National Trade Unions Congress (which represents, as a result, about 99% of the country's organized workers). The government generally asserts a strong influence over trade policies. Workers have the right to strike but rarely do so. Collective bargaining is utilized.

The standard legal workweek is 44 hours, with one day off each week. An annual bonus equal to at least one month's salary is customarily paid. Minors as young as 12 may work with the permission of the commissioner of labor but there are few applications for such permission and one has never been granted. In practice, the minimum working age is 14 and violations of this regulation are very rare. The government has set minimum workplace health and safety regulations which are effectively enforced. There is no minimum wage.

## 22 AGRICULTURE

Urbanization and industrialization have taken ever larger amounts of land away from agricultural activity in post-World War II Singapore. (World War II was fought 1939–45.) Many of the rubber and coconut plantations that dominated Singapore's landscape before the war have disappeared altogether. Housing for a growing population—and factories for its employment—stand where rubber and coconut trees used to grow. Nonetheless, agriculture remains part of Singapore's total economic activity. Growing methods on the island are the most intensive in all of Southeast Asia.

About 1.6% of the land area is used for farming, and vegetables remain a significant source of income. Remarkably, through the decades of the 1960s and 1970s and into the 1980s, Singapore was able to increase its primary produce annually through intensification. In 1999, production of fresh vegetables totaled 5,000 tons, resulting in a decreased need to rely on foreign produce imports. Singapore's trade deficit in agricultural products was US\$1.22 billion in 2001. Orchids are grown for export.

## 23 ANIMAL HUSBANDRY

Singapore has been self-sufficient (or nearly so) in the production of pork, poultry, and eggs since 1964, a notable achievement considering the modest amount of land available and the demands of growing urbanization and industrialization. Hog and poultry farming together constitute Singapore's largest primary products industry. However, hog farming is being phased out because of environmental pollution; domestic pork requirements are increasingly being met by imports. In 2001, the livestock population included two million chickens and 190,000 pigs. That year also, about 16,000 tons of eggs were produced.

The Pig and Poultry Research and Training Institute and Lim Chu Kang Veterinary Experimental Station conduct research on feeding, housing, breeding, management, and disease control.

## 24 FISHING

Local fishermen operate chiefly in inshore waters, but some venture into the South China Sea and the Indian Ocean. Traditional fishing methods are in use along coastal waters, but there is a trend toward mechanization in both offshore and deep-sea fishing. In 2000, Singapore's fishermen caught 5,371 tons of fish.

All fresh fish are auctioned at the Jurong Central Fish Market and at the Punggol Fishing Port and Wholesale Fish Market. The Jurong facility provides modern shore-support assistance and processing plants. Aquaculture concentrates on the breeding of grouper, sea bass, mussels, and prawns; a marine fish-farming scheme to encourage aquaculture in designated coastal waters was implemented in 1981; by the end of 1985, 60 marine fish farms were in operation. In 2000, total exports of fish products were valued at US\$452.5 million.

## 25 FORESTRY

In 2000, about 3.3% of Singapore's land area was classified as forest. There is little productive forestry left on the island, but Singapore continues to have a fairly sizable sawmilling industry, processing timber imported largely from Malaysia (with some additional imports from Indonesia). Both Malaysia and Indonesia are expanding their processing capacities, however, and the industry is declining in Singapore in the face of the government's policy shift to high-technology industries. Roundwood imports totaled 17,000 cu m (600,100 cu ft) in 2000. Imports of forestry products totaled US\$868.2 million while exports amounted to US\$603.6 million.



## 26 MINING

There was no mining in Singapore. However, although the city-state had limited natural resources, it was one of the most important shipping centers in the world. Singapore was the world's third-largest oil-refining center, behind Houston and Rotterdam, and was the major oil and metal futures trading market in Asia. The production of chemicals was the second leading industry in 2002, and the manufacture of oil drilling equipment and petroleum refining ranked fourth and fifth, respectively. Chemicals, mineral fuels, and petroleum products ranked among the top five export commodities. Because of environmental concerns, the government planned to close down all grinding operations by 2000; Singapore had no integrated cement plant and local operations ground imported clinker to produce cement.

## 27 ENERGY AND POWER

Total installed electrical capacity in 2001 was 6.7 million kW. All power was generated thermally, largely from imported mineral fuels. Electricity generated in 2000 totaled 27.9 billion kWh, more than six times the 1974 total of 3.9 billion kWh. Consumption of electricity in 2000 was 25.9 billion kWh. A new 815 MW gas-fired power plant built by independent producer SembCorp began operation in 2001. As of 2002, reorganization of the electric power sector was behind schedule; state-owned Singapore Power still owned majority stakes in its major subsidiaries, although they had been scheduled to be divested by 2001. The target date for divestiture had been moved to 2004.

Singapore, a major petroleum-refining center, produced gasoline in 1994 at a rate of 100,490 barrels per day; distillate fuel oil, 372,200; residual fuel oil, 288,120; jet fuel, 147,740; and kerosene, 19,060. The total refinery capacity of nearly 1.3 million barrels per day in 2002 ranked Singapore among the top producers in the Far East, alongside Japan, China, and South Korea. Consumption of natural gas was increasing rapidly as of 2002, when 4.4 million cu m per day of natural gas was transmitted through a pipeline from Malaysia—the first transnational gas pipeline in the region.

## 28 INDUSTRY

Singapore's major industries were once rubber milling and tin smelting. The modern industrialization of Singapore began in 1961 with the creation of the Economic Development Board to formulate and implement an ambitious manufacturing scheme. Most of the first factories set up under this program were of an import-substitute nature requiring tariff protection, but many such protective tariffs were subsequently withdrawn. Large-scale foreign manufacturing operations in Singapore commenced in 1967 with the establishment of plants by several major multinational electronics corporations. The Jurong Town Corporation was established under the Jurong Town Corporation Act of 1968 to develop and manage industrial estates and sites in Singapore. The emphasis was on upgrading facilities to attract high-technology and skill-intensive industries. The manufacturing sector grew by an average annual rate of about 20% during the 1962–74 period, and it registered an average annual increase of over 10% from 1975 to 1981.

Industry's share of the GDP rose from 12% in 1960 to 29% in 1981. Such dramatic achievements were in large measure made possible by the existence in Singapore even before the 1960s of one of the most developed economic infrastructures in Southeast Asia, as well as by government efforts to provide a skilled, disciplined, and highly motivated work force. Labor-intensive operations are encouraged to move offshore by the government, and service and high-technology industries are encouraged. Major industries are electronics, financial services, oil drilling

equipment, petroleum refining, rubber processing and rubber products, processed food and beverages, ship repair, and biotechnology. In 1998, industry accounted for 35% of GDP, and manufacturing for 22%. In 2001, estimates were that industry contributing 33% of GDP and employed about 33% of the labor force. Of the components of the industrial sector, manufacturing contributes about 25% to GDP and construction about 6.8%. Within manufacturing, electronics have in recent years been dominant, account for about half manufactured output, with chemicals second. According to Singapore's Economic Development Board, the electronics sector accounts for about 48% of investment in manufacturing; chemicals, about 24%; engine ring, 17%; and the biomedical sector, about 9%. In 2000 electronics grew by 15%, and it was mainly the contraction in this sector by 5.3% in 2001 that led to the overall GDP contraction of 2%. Countercyclically, construction declined 4.6% in 2001, but grew 11.9% in the first quarter of 2001 primarily due increased public sector spending on infrastructural projects such as land reclamation and mass transit railways

Petroleum refining is a well-established industry in Singapore. After Rotterdam and Houston, Singapore is the world's third largest refining center. Production capacity from five refineries (capable of processing 40 different types of crude oil) was 1.3 million barrels per day. The petrochemical industry has grown rapidly as a direct result of Singapore's refinery capacity. Current a large project to reclaim seven islands to form a 12-square mile petrochemical complex on Jurong Island is in progress. A \$200 million synthetic gas plant has recently been built on Jurong Island by the Messer Group of Germany and Texaco of the US. Also, Singapore's second naphtha cracking plant was launched in 2002 by the Petrochemical Corporation of Singapore and its partners, Phillips Petroleum, the Polyolefin Company, Hoechst and Seraya Chemicals. The Petrochemical Corporation of Singapore is a government-linked company (GLC). GLCs are majority government-owned but operate commercially, unlike traditional parastatals. GLCs account for more than 60% of Singapore's GDP. Industrial GLCs include Singapore Technologies (aerospace and electronics manufacturer); Keppel Corporation (oil drilling and related equipment manufacturer); Sembawang Corporation (construction and environmental engineering); Chartered Semiconductor Manufacturing, Singapore Telecom Petrochemical Corp. of Singapore, and Singapore Refining Corp.

## 29 SCIENCE AND TECHNOLOGY

The Science Council, established in 1967, advises the Minister for Trade and Industry on scientific and technological matters relating to research and development and to the training and utilization of manpower. The Singapore National Academy of Science promotes the advancement of science and technology, and the Singapore Association for the Advancement of Science, founded in 1976, disseminates science and technology. Other major scientific and technical learned societies and research facilities include an academy of medicine, an institute of physics, an institute of technical education, botanical gardens, a mathematical society, and a medical association. Scientific education is stressed at the university level and supported by training programs for more than 20,000 students (1990) in the nation's technical and vocational institutes. Special centers have been established for research on cancer, human reproduction, viruses, and immunology. Two new research institutions were established in 1985: the Institute of Systems Science, which does research in the area of information technology, and the Institute of Molecular and Cell Biology, a center for biotechnological research. The Singapore Science Park, located near the National University of Singapore, was developed in 1987. In 1993, the National Computer Board announced an effort to create an

“intelligent island” through an information infrastructure linking all of Singapore. In the 1987–97, Singapore had 2,318 scientists and engineers and 301 technicians per million population engaged in research and development. In 1998, high-technology exports were valued at \$54.8 million and accounted for 59% of manufactured exports.

In 1991, the government announced a \$250 million spending program to create science and high technology parks. Expenditures for research and development totaled 1.13% of GNP in 1987–97 and were funded by both the private sector and government incentives.

Courses in basic and applied sciences are offered at Nanyang Technical University (founded in 1981), the National University of Singapore (founded in 1980 by merger), Ngee Ann Polytechnic (founded in 1963), Singapore Polytechnic (founded in 1954), and Temasek Polytechnic (founded in 1990).

### 30 DOMESTIC TRADE

Marketing has always been an activity in which Singapore's Chinese, Indian and Arab merchants have played a major role. Their participation has increased in recent years as local branches of European firms have become less important. Warehousing, packaging, freight forwarding, and related services are of a high standard. A wide range of consumer goods, such as luxury, electronic, handicraft, and food items, are available in Singapore from international department stores, brand name specialty stores, local department store chains, and neighborhood shops and markets. Prices are fixed in most larger retail establishments; however, haggling is still common in smaller shops. Within the industrial sector, prices are inflated to account for bargaining.

Advertising is done by radio and television, outdoor displays, slides in motion picture theaters, and newspapers. There are several advertising agencies. Consumers are highly brand-conscious, and advertising concentrates considerably on product trademarks.

Usual business hours are 8:30 AM to 5:30 PM, with many businesses closed from 1 to 2 PM. Most major enterprises and foreign firms operate Monday through Friday and are open a half-day on Saturday. A number of Chinese and Indian businesses maintain longer hours, with some open seven days a week. Bank hours are 9:30 AM to 3 PM Monday through Friday, and Saturday from 9:30 AM to 11:30 AM. Government offices are open from 8 AM to 5 PM Monday through Friday, and 8 AM to 1 PM on Saturday. Retail stores are open from 10 AM to 9:00 PM Monday through Saturday, with most shops also open on Sunday.

### 31 FOREIGN TRADE

Since World War II, Singapore has changed from an entrepôt center for the incoming and outgoing traffic of its neighbors in Southeast Asia to an exporting power in its own right. The leading exports of the mid-1960s—rubber, coffee, pepper, and palm oil—were replaced in the early 1980s by a variety of capital-intensive manufactures. Except for an occasional slowing, annual levels of trade regularly record double-digit expansion. During the late 1990s, expansion in the high-end manufacturing and services sectors began replacing capital-intensive production.

Most of the advanced electronics that Singapore exports also take up a substantial percentage of the world export market. The following chart shows the top eight exports:

	% OF COUNTRY TOTAL
Automatic data processing equipment	14
Electronic microcircuits	19
Refined petroleum products	9.4
Telecommunications equipment	4.3
Organic chemicals	2.2
Circuit breakers	2.4
Sound recording tapes/discs	1.8
Optical equipment	1.5

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

Consumer goods	9.6%
Food	2.7%
Fuels	12.1%
Industrial supplies	14.0%
Machinery	56.5%
Transportation	4.3%
Other	0.8%

Singapore's main trading partners are the ASEAN group—principally Malaysia—the US, Malaysia, China and Hong Kong, and Japan. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Malaysia	25,026	22,832	2,193
United States	23,891	20,270	3,621
China (inc. Hong Kong)	16,216	10,627	5,589
Japan	10,400	23,154	-12,754
Thailand	5,865	5,800	65
Korea	4,913	4,815	98
Germany	4,275	4,233	42
United Kingdom	3,550	2,736	814
Philippines	3,383	3,357	26
Australia	3,207	2,298	909

### 32 BALANCE OF PAYMENTS

The traditional current account surplus is largely due to demand for non-oil exports (especially electronics) from the US, Japan, and regional countries with electronics production facilities. The account also benefits from high net investment income receipts. Total official reserves are estimated to be equal to 8.8 months of imports. A sharp contraction of imports in 1998 due to the financial crisis caused a high current account surplus, while the devalued currency caused an even larger outflow of cash from the financial accounts. Singapore's balance of payments weakened in 2001, largely due to that year's decline in trade.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Singapore's exports was \$122 billion while imports totaled \$116 billion resulting in a trade deficit of \$115.878 billion.

The International Monetary Fund (IMF) reports that in 2001 Singapore had exports of goods totaling \$122.5 billion and imports totaling \$109.6 billion. The services credit totaled \$26.2 billion and debit \$20.4 billion. The following table summarizes Singapore's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>17,884</b>
Balance on goods	12,872
Balance on services	5,725
Balance on income	663
Current transfers	-1,378
<b>Capital Account</b>	<b>-161</b>
<b>Financial Account</b>	<b>-18,768</b>
Direct investment abroad	-10,216
Direct investment in Singapore	8,609
Portfolio investment assets	-5,256
Portfolio investment liabilities	720
Other investment assets	-15,472
Other investment liabilities	2,847
<b>Net Errors and Omissions</b>	<b>184</b>
<b>Reserves and Related Items</b>	<b>861</b>

### 33 BANKING AND SECURITIES

Singapore was founded as a trading outpost by Raffles of the East India Co. in 1819. The country's rigid development was closely

linked to the government's efficient financial management. Conservative fiscal and monetary policies generated high savings, which, along with high levels of foreign investment, allowed growth without the accumulation of external debt. The banking system was open to foreign banks in the late 1960s. In 1988, Singapore had foreign reserves worth about \$533 billion, which, per capita, put it ahead of Switzerland, Saudi Arabia, and Taiwan. Many sources of finance are available to organizations doing business in Singapore. The Monetary Authority of Singapore (MAS) requires banks to observe its policy of discouraging the internalization of the Singapore dollar. The MAS performs the functions of a central bank, except for the issuing of currency. The Board of Commissioners of Currency deals with currency issues. The MAS seeks to strike a balance between supervision on the one hand, and development of the financial markets on the other.

Singapore has not encouraged the freewheeling financial services culture of Hong Kong; nor has it resorted to a *divigiste* approach, as in South Korea or Taiwan. Until quite recently, Singapore has tried to enjoy the best of both worlds. This is now starting to change, as Singapore's own major banks, long regarded as complacent due to their domestic oligopoly, are beginning to venture overseas. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$20.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$101.0 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 1.99%. As of 1999, Singapore had more than 700 financial institutions, including approximately 230 commercial and merchant banks, 142 of them commercial banks. Some 9 of the 31 banks with full banking licenses were locally incorporated; the remainder were branches of various overseas banks. Since 1971, the government has sought to attract representation by a variety of foreign banks in terms of countries and geographical regions. Most of the new foreign banks allowed into Singapore have been offshore banks that have concentrated on foreign-exchange transactions. The Post Office Savings Bank (POSBank) is the national savings bank (est. 1877). Thirteen commercial banks have restricted licenses, and 98 banks operate offshore. Singapore's four largest banks: DBS Bank, United Overseas Bank (UOB), OCBC Bank, and Overseas Union Bank Ltd. (OUB) had a 90% jump in profits in 1999 over 1998, recovering from the financial crisis quickly.

Over 350 companies are listed on the Stock Exchange of Singapore. In October 1992, the Kuala Lumpur Stock Exchange severed all links with the Singapore Stock Exchange. All the Singapore stocks moved to the Singapore exchange and the Malaysian companies moved to the Kuala Lumpur Stock Exchange. As of mid-1999, the SES had a total market capitalization of \$130 billion.

The Singapore International Monetary Exchange (SIMEX) opened in 1984. SIMEX traded, as of the end of 1985, futures contracts in gold, Eurodollar time deposit interest rates, and US/Deutschmark and US/yen currency exchanges. Trading in Japanese stock index and sterling futures began in 1986. In 1989, SIMEX also became Asia's first energy market with the introduction of the High-Sulphur Fuel Oil futures, the world's most active contract of its kind. In 1999, SIMEX achieved its second highest annual volume of 25.8 million contracts. It was voted International Exchange of the Year in 1989, 1992, 1993, and 1998.

### 34 INSURANCE

Most insurance firms are branches or agencies of UK (or other Commonwealth), European, and US companies, although local participation in insurance—particularly business insurance—is

increasing. Marine and warehouse insurance constitutes most of the business insurance, but almost all types of commercial insurance are available. Workers' compensation, third-party automobile liability, and professional liability are all compulsory insurance in Singapore. These compulsory coveragers must be placed with local companies.

The regulatory authority is the Insurance Commissioner of the Monetary Authority of Singapore. In 1998, total insurance premiums amounted to S\$7.8 billion. As of 30 June 1999, there were a total of 160 registered insurers.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 2000 Singapore's central government took in revenues of approximately \$27.9 million and had expenditures of \$19.5 billion including capital expenditures of \$5.4 billion. Overall, the government registered a deficit of approximately \$19.5 billion. External debt totaled \$8.3 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%	28
Tax revenue	55.0%	15
Non-tax revenue	33.8%	9
Capital revenue	11.2%	3
EXPENDITURES	100.0%	19,500
General public services	6.0%	1,170
Defense	24.1%	4,692
Public order and safety	5.4%	1,055
Education	19.4%	3,791
Health	5.5%	1,076
Social security	12.4%	2,422
Housing and community amenities	10.5%	2,046
Recreation, cultural, and religious affairs	0.1%	14
Economic affairs and services	15.1%	2,946
Interest payments	1.5%	288

### 36 TAXATION

Individual and commercial incomes are taxed whether derived in Singapore or from outside sources. Types of direct taxation include income, property, estate duty, and payroll taxes; the Inland Revenue Department is responsible for the assessment and collection of all such levies. Effective in 2002, the top marginal personal tax rate was reduced to 22% and tax bands were consolidated from 10 to 7. The first \$20,000 of an individual's chargeable income is not taxed. The corporate income tax rate was reduced from 25.5% to 24.5% in 2002, and then to 22% in 2003 in line with the government's commitment to reduce the rate to 20% over a three year period. Industrial establishments, companies, and various other businesses are eligible to deduct from their gross profits varying and usually generous depreciation allowances for building, plants, and machinery. There are tax holidays of 5 to 10 years for investing in robotics and other approved "pioneer" industries; other tax incentives for investing in export industries and for expansion of established enterprises; and special incentives for research and development companies to locate in Singapore. Other taxes include a goods and services tax (GST) at a rate of 3% and a stamp tax. The general property tax is 12% annually.

### 37 CUSTOMS AND DUTIES

Prior to the 1960s, Singapore was essentially a free port, with import duties levied only on alcoholic beverages, tobacco and tobacco products, petroleum products, and certain soaps. In 1959, however, a law was passed empowering the government to

levy import duties on other products to protect local industries. In the 1960s, many new tariffs were established with the primary aim of helping to support development of local manufacturing firms. In the early 1970s, many items were withdrawn from the tariff list, and by 1982 there were only 176 items on the list, compared with 349 in 1972. In 1985, excise duties on sugar and sugar substitutes and import and excise duties on fuel oil were lifted. By 1993, there were almost no import tariffs except for duties on alcoholic beverages, tobacco products, petroleum products, and a few other items. Duties ranged from 5–45%. There are no export duties. As of 2002, the average tariff in Singapore was below 1%, as more than 99% of goods entered duty-free. In 2000, duties were levied on tobacco products, alcoholic beverages, gasoline, automobiles (31%), and motorcycles (12%).

Singapore has six free trade zones, five for seaborne cargo (in the five gateways of the port) and one for air cargo. The GST (goods and service tax) of 3%, which is levied on all imports, is not levied on goods stored in the free trade zones.

### 38 FOREIGN INVESTMENT

Legislation to attract new foreign investments, the Economic Incentives Act, was passed in 1967; it granted exemption from taxation for a five-year period to investors for export development and provided inducements and guarantees with respect to repatriation of profits and capital. Overseas offices to promote such foreign investment were set up in New York, Chicago, San Francisco, London, Paris, Frankfurt, Zürich, Tokyo, Hong Kong, Stockholm, and Melbourne. The Capital Participation Scheme, adopted in 1973, permitted high-technology industries to set up branches in Singapore with 50% equity participation by the government. With changes in Singapore's industrial development, there have also been alterations in incentives. In the early 1980s, the main criteria for granting tax incentives were capital investment ratios (including training costs) per worker, value added per worker, and the ratio of technical personnel and skilled workers to the total workforce. Major investment activity focused on petroleum refining, general manufacturing, electronics, and hotel construction, as well as on traditional endeavors.

Since the mid-1980s the government's incentive policies have broadened to include Singapore's development as a total international business center, an international air-sea cargo center, a location for the regional operational headquarters of multinational corporations, and a major exporter of services. Investment in the manufacturing sector is encouraged in areas of medium-range or higher technology, or the design and production of higher value-added products. Singapore does not require that foreign investors take on private sector or government joint venture partners.

In 2000, foreign companies net investment commitments in manufacturing were \$4.2 billion, somewhat ahead of the \$4.016 billion reached in 1997 before the Asian financial crisis, and \$1 billion more than the level in 1998. US companies accounted for 51% of the total; European companies, 23.8%; Japan, 21%, and all other countries, 4.26%. As of 1999, cumulative foreign investment in Singapore was a little over \$31 billion, of \$12.2 billion (39%) is from US companies; 31.6% is from Japanese companies; and 25% is from Europe. Foreign investments account for about one-quarter of cumulative gross fixed assets in the manufacturing sector.

### 39 ECONOMIC DEVELOPMENT

Technological change and political considerations in the post-World War II period—not least of all the nationalism that accompanied the quest for independence among the region's European colonies—have combined to alter dramatically the economic self-perception and public policies of this diminutive

island-state. By the late 1950s, it was obvious that prospects for economic growth would be severely limited if Singapore remained bound by its old economic role as *entrepôt*. The decision to industrialize—and to do so rapidly—was deliberate policy. Initial emphasis in the government's economic development program was upon employment. The increasing trend toward economic self-sufficiency in neighboring Indonesia and Malaysia—and the steady retreat of the UK from defense responsibilities in the region as a whole (centered on its large Singapore naval and air facilities)—prompted the government to focus completely on finding alternative employment for the island's highly skilled and disciplined workforce. By the end of the 1960s, this problem was effectively solved, with Singapore boasting one of the lowest unemployment rates in all of Asia.

Emphasis in the mid-1970s was on labor skills and technology, especially as these were identified with such modern industries as machine tools, petrochemicals, electronics, and other precision work. A high level of participation by private foreign capital provided an important cornerstone to this development. In 1979, the government abandoned its earlier policy of stimulating low-wage industries and adopted a policy of encouraging capital-intensive and technologically sophisticated industries. Especially targeted for investment promotion in the 1980s were computers, computer peripherals, electronic medical instruments, automotive components, specialty chemicals and pharmaceuticals, and optical and photocopying equipment. Following the recession of 1985–86, the government concentrated on developing new markets and on turning Singapore into a manufacturing, financial, and communications center for multinational corporations.

In the 1990s the economic development strategy emphasized both the manufacturing and service sectors. The Economic Development Board (EDB), formed in 1961, has guided Singapore's industrialization. Early emphasis was placed on promoting investment in manufacturing. The Strategic Economic Plan (SEP) announced in 1991 focused on education and human resources to enhance export competitiveness. Emphasis on developing the service sector has been supported and enhanced by the Operational Headquarters (OHQ) program, encouraging companies to use Singapore as regional headquarters or as a central distribution center. The Creative Business Program promotes investment in the film, media, and publishing, arts and entertainment, textile, fashion and design sectors. Currently the EDB works toward Singapore's vision of its future as a developed country through the promotion of business. Singapore's globalization strategy hinges on making a transformation from a production-driven economy to an innovation-driven one. Other key elements of this strategy are the reversal of downward trends in productivity, and sustaining foreign investment in Singapore's capital investment. Singapore initiated the formation of a growth-triangle, linking Johor, Malaysia, Singapore and Indonesia's Riau province focusing on Batam Island. Singapore benefits by tapping a supply of low-wage workers and offshore land to sustain its more labor-intensive industries.

The Asian financial crisis was only a temporary setback for the healthy economy of Singapore. Roadblocks to further economic development include rising labor costs; which have threatened investment in Singapore's industrial sector, causing the government to implement strategies to cut costs and increase productivity. The rise of Singapore's currency has also prompted the dispersion of new industrial enterprises from the country, which the government has answered by promoting the development of high-capital industries.

The collapse of the dot.com bubble in 2001 presented a more serious challenge, particularly as subsequent events—the 11 September 2001 terrorist attacks on the United States and global uncertainties attending the confrontation with Iraq—have resulted in continued low export demand. As of 2003, the

Singapore economy was set to register its second year of positive growth, although at the less than robust rate of 4.8%. At this point the government has not made any fundamental adjustments in its economic development strategy.

#### 40 SOCIAL DEVELOPMENT

Government-provided social welfare services are directed by the Ministry of Community Development, which is often assisted by various voluntary organizations, most of them affiliated with the Singapore Council of Social Service. Besides institutionalized care, the Ministry of Community Development administers foster and homemaker service schemes for needy young persons. In January 1986, the government operated 88 child care centers and three welfare homes for aged and destitute persons. Social welfare assistance is also provided by mutual-benefit organizations and voluntary services.

All employers and employees earning more than S\$50 per month must contribute to the Central Provident Fund, a public pension and retirement program which provides lump-sum benefits for old age, disability, death, sickness, and maternity. Retirement is at age 55. Employee contributions are based on income; employers pay 10% of monthly earnings. If employees earn less than S\$200 per month, they are exempt from contribution requirements. There is a special system for public employees, and employers may choose a private plan if approved. Employers also fund workers' compensation benefits for job-related injuries. In addition, employers are required to provide 14 days of paid sick leave and eight weeks of paid maternity leave to their employees.

Women's legal rights are equal to those of men in most areas, including civil liberties, employment, business, and education. Women comprise 42% of the labor force and are well represented in the professions. Despite the legal principle of equal pay for equal work, women earn approximately 75% of the average male salary. This is due in part to the fact that most women work in the lower paying administrative jobs. Women also have a limited ability to transmit their citizenship to their children if they live overseas. In addition, the health benefits of female civil servants do not cover their spouses, as is the case for male employees. In 1999, however, women won the right to sponsor foreign-born husbands for citizenship. Spousal abuse and domestic violence are not widespread problems and the laws provide protection to women.

Prison conditions are considered to be good, but there are reports of the mistreatment of detainees. Caning is a common form of punishment for many different offenses. Cases of police abuse are generally investigated by the government and reported in the media. Freedom of assembly and association are restricted.

#### 41 HEALTH

Singapore's population enjoys one of the highest health levels in all of Southeast Asia. This achievement is largely attributed to good housing, sanitation, and water supply, as well as the best hospitals and other medical facilities in the region. Fully 100% of the population had access to safe drinking water and 99% had adequate sanitation in 1994–95. Nutritional standards are among the highest in Asia. Singapore is financing medical care with a combination of personal contribution and government assistance. In 1984, Singapore initiated a Medisave scheme, a compulsory savings plan for medical expenses. About half the population pays hospital bills through this plan, although as of 1990 the plan did not cover outpatient expenses. Workers must contribute 3–4% of their earnings to a medical savings account to be used for medical expenses. The contribution of workers is matched by employers. As of 1999, total health care expenditure was estimated at 3.2% of GDP.

In 1990, there were 19 hospitals, five of which were administered by the government, and five were “government

restructured” (as of 1989, given a large degree of administrative autonomy). The remaining nine hospitals were privately run. The main multidisciplinary hospitals are Alexandra Hospital, Changi Hospital, Tan Tock Hospital (all government run); and National University Hospital, Singapore General Hospital, and Toa Payoh Hospital (all government restructured). In 1991, there were 3,779 doctors, 600 dentists, and 10,240 nurses; in addition, there were almost 600 pharmacists (80% of whom worked in privately-owned establishments). As of 1999, there were an estimated 1.6 physicians and 3.6 hospital beds per 1,000 people.

An estimated 74% of married women (ages 15 to 49) used contraception in 1993. The fertility rate in 2000 was 1.5 children per woman during her childbearing years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 12.8 and 4.3 per 1,000 people. Life expectancy in 2000 was 78 years and infant mortality was 3 per 1,000 live births. In the same year, 100% of the population had access to health care services.

According to a national health survey by the Ministry of Health, high cholesterol had fallen from 27% in 1984 to 19% in 1992; hypertension levels were also down from 15.3% to 13.6% in the same period. There were 5,457 deaths due to cardiovascular disease in 1995. More men than women smoked in Singapore in 1995 (31.9% vs. 21.7%). However, smoking had increased among 18–19 year olds, from 12% in 1984 to 15.2% in 1992; for 20–39 year olds, the increase was 15.8% to 19.4%. The occurrence of diabetes increased from 4.7% in 1984 to 8.6% in 1992 among people 18–69 years; cancer increased as well. Fourteen percent of Singaporeans exercise regularly.

Leading causes of death per 100,000 people in 1990 were communicable diseases and maternal/perinatal causes, 114; noncommunicable diseases, 498; and injuries, 39. There were 48 cases of tuberculosis per 100,000 people reported in 1999. In 1995, vaccination rates for children up to one year old were as follows: tuberculosis, 97%; diphtheria, pertussis, and tetanus, 95%; polio, 93%; measles, 88%; and hepatitis B, 91%. In 1999, rates for DPT and measles were, respectively, 94% and 93%.

The slow growth of the HIV epidemic in Singapore may be attributed to general awareness and programs promoting condom use at STD clinics. As of 1999, the number of people living with HIV/AIDS was estimated at 4,000 and deaths from AIDS that year were estimated at 210. HIV prevalence was 0.2 per 100 adults.

#### 42 HOUSING

Sustained rapid population growth in the years preceding and following World War II provided Singapore with an acute housing shortage. In 1947, a housing committee determined that, with a squatter problem worsening each year, 250,000 persons required immediate housing, while another 250,000 people would need new housing by the late 1950s. In 1960, the Housing and Development Board was established by the new PAP government. During its first five-year building program (1960–65), the board spent S\$230 million to construct 53,000 dwelling units for more than 250,000 people. It was in this period that Queens Town, Singapore's first satellite community, was developed. By the mid-1970s, Queens Town had a total of 27,000 living units in seven neighborhood complexes, housing upwards of 150,000 people.

In the second five-year building program (1966–70), 67,000 additional units, accommodating 350,000 persons and costing S\$305 million, were built. About 113,000 more units were erected by the board in the third building program (1971–75), and over 130,000 in the fourth building program (1976–80). Another 100,000 units were constructed in the fifth building program (1981–85), and 160,000 were planned for the sixth building program (1986–90). In 1985, as a result of these government-sponsored efforts, 2,148,720 persons—or 84% of

the total population of Singapore—lived in 551,767 apartments under the management of the Housing and Development Board. Some 397,180 units had been sold to the public. As of 1998, there were about 949,000 housing units nationwide. As of 2002, about 85% of the population resided in flats constructed through Housing and Development Board Programs. About 92% of all units are owner occupied. The average household contains 3.7 people.

### 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 7.6% (males, 3.6%; females, 11.5%). All children who are citizens are entitled to free primary education. Primary schooling is available in all four official languages. Under the education system implemented in stages after 1980, the first three years of primary schooling emphasize the learning of English and any other official language, after which students are streamed, on the basis of performance, into an additional three or five years of primary school. Upon completion of primary school, they can join the Vocational and Industrial Training Board for vocational training, or if they qualify, they can take four or five years of secondary schooling leading to two-year courses in junior colleges or three-year courses in school centers at the pre-university level.

In 1996, there were 269,668 students in 198 primary schools, with 10,618 teachers. Student-to-teacher ratio stood at 25 to 1, where it remained as of 1999. Also in 1996, secondary schools had 207,719 students and 10,354 teachers. Fifteen vocational institutes offered training courses in the metal, woodworking, electrical, electronic, and building trades. As of 1995, public expenditure on education was estimated at 3.1% of GDP.

The National University of Singapore was established on August 8, 1980, through the merger of the University of Singapore and Nanyang University. In addition, there are the Singapore Technical Institute, Ngee Ann Polytechnic, Singapore Polytechnic, and Nanyang Technological Institute. In 1996, all institutions of higher education had 6,689 teaching staff and enrolled a total of 92,140 students.

### 44 LIBRARIES AND MUSEUMS

The National Library of Singapore (founded in 1844 and known, until 1960, as Raffles National Library) contains 5.6 million volumes, including books in the four official languages. The National Library houses the government archives and serves as a repository for official publications printed in Singapore since 1946. The library has nine full-time branches, and a mobile library service for rural portions of the island. The National University of Singapore Library contains almost 2.2 million volumes, including extensive medical and science/technology collections. (The National University of Singapore was formed in 1980 with the merger of the former University of Singapore and Nanyang University.) Singapore Polytechnic holds 196,000 volumes, and the Institute of Southeast Asian Studies holds 140,000.

The National Museum (formerly Raffles Museum), established in 1849, has collections of natural history, ethnology, and archaeology. Since 1965, it has also specialized in the art, culture, and way of life of Singapore's multiracial communities. The National Art Gallery, established in 1976, features works by the peoples of Southeast Asia, and is a part of the National Museum. The Art Museum and Exhibition Gallery of the National University of Singapore includes in its collections Asian art objects and contemporary Singaporean and Malaysian painting and textiles. The new Singapore Art Museum opened in 1996 with a permanent collection of more than 3,000 contemporary paintings and sculptures from Southeast Asian artists. The Asian Civilisations Museum, concerning ethnology, at Empress Place, opened in 2003 and is the largest museum in Singapore. The Lee

Kong Chian Art Museum, the Centre of Fine Arts, and Singapore Science Center are also found in the city-state.

### 45 MEDIA

Postal, telephone, and telegraph services in Singapore are among the most efficient in Southeast Asia. National and international telecommunications services are administered by the Telecommunication Authority of Singapore. Service is available on a 24-hour basis for worldwide telegraph, telephone, and telex communication. There were 1.95 million mainline telephones in 2000, with an additional 2.74 million cellular phones in use.

Broadcasting services are operated by the government-linked Singapore Broadcasting Corporation, created in 1980; Radio Singapore, inaugurated in 1963, which broadcasts in Chinese, Malay, English, and Tamil; and Television Singapore. As of 1999, there were 13 AM and 4 FM radio stations. In 2000, there were six television stations. In 2000, Singapore had 672 radios and 304 television sets for every 1,000 people. The same year, there were 483 personal computers in use for every 1,000 people. By 2001, there were 2.12 million Internet subscribers served by about nine service providers.

There are English, Chinese, Malay, and Tamil daily newspapers. Foreign publications reporting on Southeast Asian political and social affairs must obtain an annual permit to distribute more than 300 copies of each edition in Singapore. Singapore has 10 daily newspapers, with at least one printed in each of the four official languages. The oldest and most widely circulated daily is the English-language *Straits Times*, founded in 1845.

In 2002 Singapore's largest newspapers, with their estimated daily circulations, were as follows:

	LANGUAGE	CIRCULATION
<i>Straits Times</i>	Chinese/Malay/English	392,600
<i>Lianhe Zaobao</i>	Chinese	205,160
<i>The New Paper</i>	English	121,000
<i>Shin Min Daily News</i>	Chinese	120,130
<i>Lianhe Wanbao</i>	Chinese/English	85,500
<i>Berita Harian</i>	Malay/English	60,000
<i>Business Times</i>	Chinese/English	36,000
<i>Tamil Murasu</i>	Tamil	14,000

*The Sunday Times*, published in all four of the major language, had a weekly circulation of 387,000 in 2002.

Although freedom of the press is guaranteed by law, the International Press Institute has on various occasions cited Singapore for interference with press freedom. Magazines, motion pictures, and plays are censored for sexual content and presentation of ethnically sensitive matters. In August 1986, parliament passed a bill enabling the government to restrict sales and distribution of foreign publications "engaging in domestic politics." Two months later, the government announced that the distribution of *Time* magazine would be reduced because the magazine had refused to print the entire text of a letter from a government official. In 1987, similar distribution restrictions were placed on the *Asian Wall Street Journal*.

### 46 ORGANIZATIONS

Singapore has a wide variety of organizations, some private in their origin and direction and others essentially government controlled. There are service clubs belonging to international associations; Chinese, Indian, and Malay chambers of commerce; and a multicomunal Singapore chamber of commerce. In addition to such largely private organizations, the government established in 1960 the People's Association, to organize and promote mass participation in social, cultural, educational, and recreational activities. In Singapore, there is a comprehensive network of 133 community centers throughout the country set up by the People's Association. Management, women's, youth, and

senior-citizen subcommittees exist as active units of the association.

National youth organizations include the Singapore Scout Association, Youth for Christ, Student Christian Movement of Singapore, the Association of Singapore Students in Economics and Commerce, YMCA/YWCA, and the Singapore Boy's Brigade. Women's organizations include the Association of Women for Action and Research, Singapore Council of Women's Organizations, and the Singapore International Foundation.

The Academy of Medicine, the Singapore National Academy of Science, and the Institute of Physics serve to promote public interest and education as well as professional advancement in various branches of science. Culture and arts organizations are represented by the Indian Fine Arts Society and the Singapore Art Society.

#### 47 TOURISM, TRAVEL, AND RECREATION

Shopping, with bargaining the usual practice, is a major tourist attraction. Points of interest include the Van Kleef Aquarium at Fort Canning Park, the Singapore Zoological and Botanical Gardens, and the resort island of Sentosa. Singapore has a number of other attractions, including an amusement park at Haw Pav Village, site of historic Chinese statues, and the restoration of the Alkaff Mansion.

Singapore has many sports clubs and associations, notably in the areas of badminton (in which Singaporeans have distinguished themselves internationally), basketball, boxing, cricket, cycling, golf, hockey, horse racing, motoring, polo, swimming, tennis, and yachting.

Tourists wishing to enter or visit Singapore must have a valid passport or other internationally recognized travel document. Visas are required by nationals of Afghanistan, India, Cambodia, Laos, China, Russia, Viet Nam, and holders of Palestinian refugee papers and Hong Kong certificates of identity. Vaccinations are required against yellow fever for travelers from an infected country.

In 2000, 7,691,399 visitors arrived in Singapore, mostly from East Asia and the Pacific. That year Singapore earned US\$6 billion from tourism. There were a total of 35,625 hotel beds, filled to 84% of capacity.

According to 2002 US government estimates, the cost of staying in Singapore was approximately \$211 per day.

#### 48 FAMOUS SINGAPOREANS

Sir Thomas Stamford Bingley Raffles (1781–1826) played the major role in the establishment of a British presence on Singapore Island in 1819; he introduced policies that greatly enhanced Singapore's wealth, and he suppressed the slave trade. Raffles also distinguished himself as a collector of historical and scientific information. The English writer and educator Cyril Northcote Parkinson (1909–93), formerly a professor at the University of Singapore, became internationally known as the originator of Parkinson's Law. Singapore's dominant contemporary figure is Lee Kuan Yew (b.1923), prime minister of the Republic of Singapore from 1965 to 1990.

#### 49 DEPENDENCIES

Singapore has no territories or colonies.

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# SOLOMON ISLANDS

**CAPITAL:** Honiara

**FLAG:** The flag consists of two triangles, the upper one blue, the lower one green, separated by a diagonal gold stripe; on the blue triangle are five white five-pointed stars.

**ANTHEM:** *God Save the Queen.*

**MONETARY UNIT:** The Solomon Islands dollar (SI\$), a paper currency of 100 cents, was introduced in 1977, replacing the Australian dollar, and became the sole legal tender in 1978. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 dollar, and notes of 2, 5, 10, 20, and 50 dollars. SI\$1 = US\$0.14306 (or US\$1 = SI\$6.99) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; Queen's Birthday, celebrated as a movable holiday in June; Independence Day, 7 July; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Whitmonday.

**TIME:** 11 PM = noon GMT.

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

The Solomon Islands consists of a chain of six large and numerous small islands situated in the South Pacific, some 1,900 km (1,200 mi) NE of Australia and about 485 km (300 mi) E of Papua New Guinea. Extending 1,688 km (1,049 mi) ESE-WNW and 468 km (291 mi) NNE-SSW, the Solomon Islands has an area of 28,450 sq km (10,985 sq mi). Comparatively, the area occupied by the Solomon Islands is slightly smaller than the state of Maryland. The largest island is Guadalcanal, covering 5,302 sq km (2,047 sq mi); other major islands are Makira (formerly Malaita), San Cristobal, Vella Lavella, Choiseul, Rennell, New Georgia, and the Santa Cruz group. The total coastline of the Solomon Islands is 5,313 km (3,301 mi).

The capital city of the Solomon Islands, Honiara, is located on the island of Guadalcanal.

## <sup>2</sup>TOPOGRAPHY

The topography varies from the volcanic peaks of Guadalcanal to low-lying coral atolls. Densely forested mountain ranges are intersected by precipitous, narrow valleys. The highest peak is Mt. Makarakomburu, at 2,447 m (8,127 ft), on Guadalcanal, an island that also contains the country's most extensive alluvial grass plains. Rivers are narrow and impassable except by canoe. Extensive coral reefs and lagoons surround the island coasts.

## <sup>3</sup>CLIMATE

The climate is tropical. From December to March, northwest equatorial winds bring hot weather and heavy rainfall; from April to November, the islands are cooled by drier southeast trade winds. Damaging cyclones occasionally strike during the rainy season. The annual mean temperature is 27°C (81°F); annual rainfall averages 305 cm (120 in), and humidity is about 80%.

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

Dense rain forest covers about 90% of the islands, with extensive mangrove swamps and coconut palms along the coasts. The islands abound in small reptiles (61 species), birds (163 breeding

species), and mammals (53 species), as well as insect life. There are over 230 varieties of orchids and other tropical flowers.

## <sup>5</sup>ENVIRONMENT

Most of the coral reefs surrounding the islands are dead or dying. As an island nation, the Solomon Islands are concerned with the effects of global warming and rising sea levels. Deforestation is another significant environmental problem. United Nations sources estimate that the nation's forests will be exhausted in 10–15 years. The related problem of soil erosion threatens the country's agricultural productivity.

The nation has about 10.7 cu mi of water, of which 40% is used for farming and 20% for industrial activity. Only 65% of the nation's rural population have access to pure drinking water. Sources of pollution include sewage, pesticides, and mining by-products.

Twenty mammal species and 18 bird species are endangered, as are 21 types of plants. Endangered species include the gizo white-eye and the hawkbill, green sea, and leatherback turtles. The Solomon Islands' crowned pigeon and the Nendo tube-nosed fruit bat have become extinct.

## <sup>6</sup>POPULATION

The population of Solomon Islands in 2003 was estimated by the United Nations at 477,000, which placed it as number 161 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 43% of the population under 15 years of age. There were 106 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.88%, with the projected population for the year 2015 at 643,000. The population density in 2002 was 17 per sq km (43 per sq mi), but there are significant variations from island to island; moreover, most mountainous and heavily wooded areas are inaccessible (except to tribal groups of the interior), and most of the population is concentrated in the coastal regions.

It was estimated by the Population Reference Bureau that 20% of the population lived in urban areas in 2001. The most



populous islands are Malaita and Guadalcanal. Honiara, on Guadalcanal, is the largest town and chief port. Also the capital city, Honiara had a 2002 population of 68,000. According to the United Nations, the urban population growth rate for 2000–2005 was 5.2%.

## 7 MIGRATION

Since 1955, immigrants from the Gilbert Islands (now Kiribati) have settled in underpopulated areas. Movements from the countryside to Honiara and north Guadalcanal have created problems of overcrowding. The resentment engendered by those who moved from the heavily populated island of Malaita to Guadalcanal resulted in violence in 1999. The net migration rate for 1999 was zero. In 2000 the total number of migrants was 4,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

In 1999, Melanesians constituted 93% of the total population. Also enumerated were Polynesians at 4%, Micronesians at 1.5%, Europeans at 0.8%, Chinese at 0.3%, and others accounting for 0.4%. Melanesians live mainly on the larger islands; Polynesians tend to inhabit the smaller islands and atolls.

## 9 LANGUAGES

English is the official language but is only spoken by approximately 1–2% of the population. Melanesian pidgin is the lingua franca. Some 120 indigenous languages and dialects are spoken, each within a very restricted geographical area. Melanesian languages are spoken by about 85% of the population, Papuan languages by 9%, and Polynesian languages by 4%.

## 10 RELIGIONS

Christianity, introduced by missionaries, is the principal organized religion. As of 2002, 45% of the islanders were Anglicans; 18% were Roman Catholics; 12% were United (Methodist/Presbyterian); 9% were Baptists; 7% were Seventh-Day Adventist; 5% were other Protestant; and 5% adhered to traditional indigenous religions. Indigenous churches that are offshoots of other established Christian churches are attended by about 2% of the population. There is also a small Baha'i community. The most recent census indicated that there were only 12 Muslims in the country.

## 11 TRANSPORTATION

In 2002, there were an estimated 1,360 km (845 mi) of roads in the Solomons, of which only 34 km (21 mi) were paved. Of the 1,326 km (824 mi) of unpaved roads, about 800 km (497 mi) belong to private plantations. Shipping services link the Solomons with other Pacific islands, Australia, Japan, and Europe. Honiara is the principal port, followed by Ringi Cove. A fleet of government vessels provides interisland connections and handles about one-third of total tonnage carried. There were 31 airports in 2001, only 2 of which had paved runways. Henderson's Field, on the northern coast of Guadalcanal, is the site of Honiara's civil airport. Solomon Airlines provides regular flights between islands and to nearby Papua New Guinea and Vanuatu. In 1997, Solomon Airlines carried 94,000 passengers on domestic and international flights.

## 12 HISTORY

The islands now known as the Solomons are thought to have been inhabited originally by Melanesians, whose language has affinities with Malay but whose precise origin has not been determined. The first European contact with the Solomons, in 1567, was the sighting of Santa Isabel Island by the Spanish explorer Alvaro de Mendaña; the following year, Mendaña and another Spaniard, Pedro de Queirós, explored some of the

islands. Mendaña named the islands *Islas de Salomon*, thinking that the gold source for King Solomon's riches was located there.

European contact with the Solomons was cut off for nearly two centuries until they were visited by the English navigator Philip Carteret in 1767. Following Carteret's visit, the British navy began to make periodic calls at the islands. During the period 1845–93, the Solomons were frequently visited by missionaries and traders. Indigenous peoples were also subjected to exploitation by "blackbirders," who impressed their captives into forced labor, often on colonial sugar plantations in Fiji, Hawaii, Tahiti, or Queensland. The brutality of the kidnapers provoked reprisals by the islanders, resulting in mass slayings of both Europeans and local peoples.

In 1893, the British government stepped in and established a protectorate over certain islands in the southern Solomons, including Guadalcanal, Malaita (now Makira), San Cristobal, and the New Georgia group. The remainder of the Solomons had by this time fallen under German dominion; some of these, including Choiseul and Santa Isabel, were transferred by treaty to the UK in 1900. The British Solomon Islands Protectorate, as the entire group came to be known, initially was under the jurisdiction of the Office of the British High Commissioner for the Western Pacific.

During World War II, the Solomons provided the theater for some of the most bitter fighting of the Pacific war after Japanese troops invaded and occupied Guadalcanal in 1942. A Japanese airfield on the island's northern coast—later known as Henderson's Field—was captured by US Marines on 7 August 1942, the opening foray in the Battle of Guadalcanal, which cost the lives of about 1,500 US soldiers and 20,000 Japanese. Guadalcanal was evacuated by Japan in February 1943, although Japanese forces remained elsewhere in the Solomons until 1945. Widespread destruction and loss of life were visited on the local peoples during the war, and the legacy of social dislocation gave impetus to the development of a pro-independence nationalist movement in Malaita known as the Marching Rule.

In 1953, local advisory councils were set up in Malaita, eventually spreading to other islands of the protectorate. In 1960, the territorial government appointed executive and legislative councils, which were granted their first elected minority in 1964. A new constitution promulgated in April 1970 provided for replacement of the two councils by a unitary Governing Council, the majority of whose members were to be elected. During May and June, the Solomon Islands' first general election was held, with voters selecting 17 of the council's 26 members. On 21 August 1974, a new constitution introduced a ministerial system of government headed by a Council of Ministers. A Legislative Assembly subsequently chose Solomon Mamaloni as the Solomons' first chief minister. In May 1975, a delegation from the Solomon Islands, led by Mamaloni, met with UK officials in London and set up a timetable for internal self-government and for full independence. On 22 June 1975, the territory's name was officially changed from the British Solomon Islands Protectorate to the Solomon Islands.

The islands achieved internal self-government in 1976 and became an independent member of the Commonwealth of Nations on 7 July 1978. Peter Kenilorea was prime minister until his coalition government collapsed in August 1981, after which Mamaloni returned to power. In October 1984, Sir Peter Kenilorea (as he had become) was reelected prime minister, but he resigned in November 1986, following allegations of mismanagement of funds; Ezekiel Alebu, deputy prime minister, succeeded him. In the general elections of February 1989 the People's Alliance Party (PAP), led by Solomon Mamaloni, defeated the Alebu government. Mamaloni became the new prime minister in March 1989. Mamaloni resigned as PAP leader in October 1990 and formed a coalition government with several members of the opposition. Francis Billy Hilly, an independent

supported by members of the National Coalition Partners (a loose six-party coalition), became the Solomon Islands' new prime minister in June 1993. Hilly worked with the Melanesian Spearhead Conference to ease tension between the Solomon Islands and Papua New Guinea. In 1994, Parliament voted to replace Hilly with Mamaloni, leader of the Group for National Unity and Reconciliation (GNUR), the largest political party in parliament.

In the 1997 National Parliament elections, GNUR retained its majority, and Bartholomew Ulufa'alu was elected prime minister. He pledged to resolve the Solomons' financial crisis by improving revenue collections and downsizing government ministries. He also grappled with the problem of finding a resolution to the ethnic conflict in Guadalcanal which dominated all other domestic political issues since late 1998. Disputed were issues of land ownership, access to education, employment and economic development between the people of Guadalcanal and Malaitan settlers on the island. That year, the Isatubu Freedom Movement (IFM), representing Guadalcanal's native people, began to forcibly evict Malaitans, who responded by forming the Malaita Eagle Force (MEF). In May 2000, the MEF took Ulufa'alu hostage, staging a coup. Ulufa'alu resigned, and in June he was replaced by Manasseh Sogavare. Fighting between the two factions had left over 100 people dead and more than 20,000 displaced. A peace agreement was signed in October 2000, but it failed to end the violence. Unarmed peacekeepers from Australia and New Zealand were sent to supervise disarmament and demilitarization. In September 2001, IFM rebel leader Selwyn Sake was killed, threatening the peace agreement. In November, the MEF reported that 90% of its weapons had been surrendered. Allan Kemakeza of the People's Alliance Party was elected prime minister in December 2001. In February 2003, a member of the country's National Peace Council, Sir Frederick Soaki, was assassinated. He worked with the UN to demobilize former militants still employed by the government as police officers on Malaita. As of early 2003, Kemakeza's government was criticized for failing to curb the actions of militia members.

### 13 GOVERNMENT

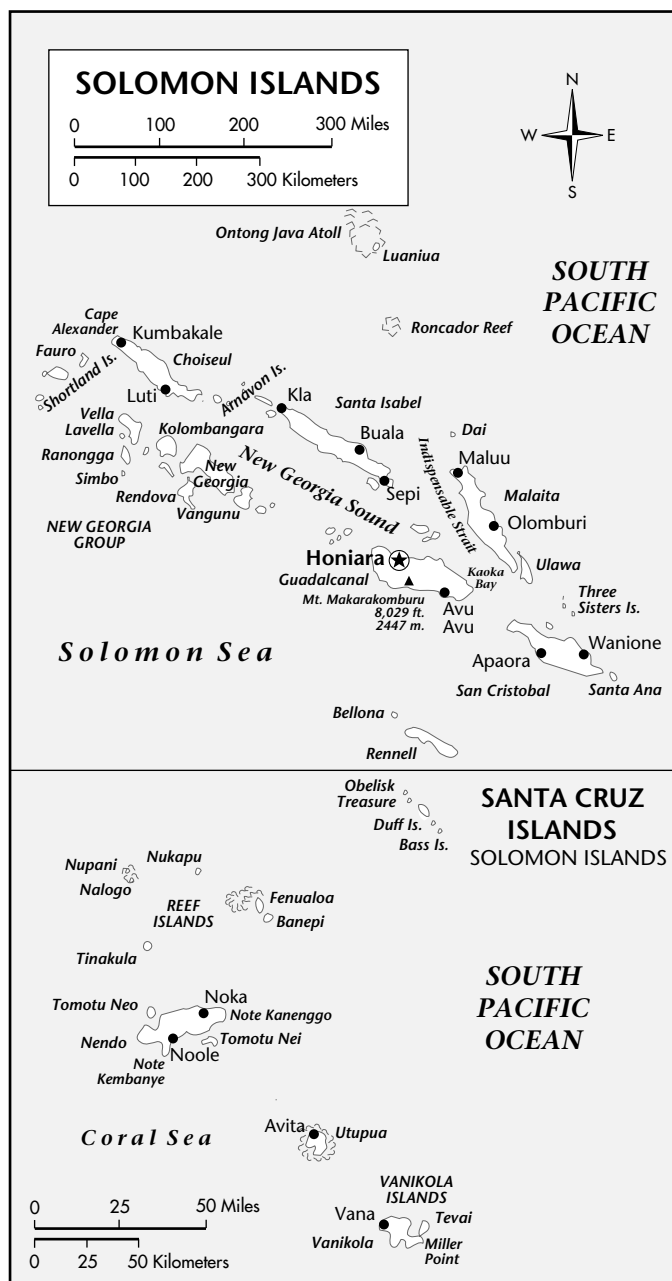
Under the independence constitution of 1978, the Solomon Islands is a parliamentary democracy with a ministerial system and a unicameral national parliament, consisting of 50 members elected to four-year terms; suffrage is universal for citizens over the age of 21. The prime minister, who must command a parliamentary majority, selects the 20-member cabinet. The head of state is the British monarch, represented by the governor-general. Governor-general since 1994, Sir Moses Pitakaka, was replaced in May 1999 by Anglican priest Father John Lapli, who was elected by the national parliament over six other candidates, including Pitakaka. There is a constitutionally provided Ombudsman to provide protection against improper administrative treatment.

### 14 POLITICAL PARTIES

The members of the first parliament formed after independence in 1978 had no party affiliations. However, political parties emerged shortly before the elections of August 1980, in which the Solomon Islands United Party, headed by Peter Kenilorea, won 14 seats; the People's Alliance Party (PAP), led by Solomon Mamaloni, received 8 seats; the National Democratic Party (NDP), 2 seats; and independents, 14 seats.

In the August 1997 elections, the Group for National Unity and Reconciliation (GNUR) retained its 21 seats, the PAP won 7 seats; the National Action Party (NAPSI), 5; Labor (SILP), 4; United Party (UP), 4; and independents, 6, and other parties, 3.

In the December 2001 elections, the PAP, led by Kemakeza, won 16 seats; the Alliance for Change Coalition, led by Ulufa'alu, took 13 seats; the People's Progressive Party, led by Sogavare,



LOCATION: 5° to 12°30' S; 155° to 170°E. TERRITORIAL SEA LIMIT: 12 miles.

took 2 seats; the Labor Party, led by Joses Tuhunu, won 1 seat; and independents held 18 seats. The next elections are scheduled for December 2005.

### 15 LOCAL GOVERNMENT

The islands are divided into nine administrative districts, of which eight are provinces, each with an elected assembly and a premier; the ninth is the town of Honiara, governed by an elected council. In outlying areas, village headmen exercise administrative responsibilities.

### 16 JUDICIAL SYSTEM

The judicial system is based on a blend of British and traditional systems and consists of the high court, magistrate's courts, and

local courts. Appeals from magistrate's courts go to the high court; customary land appeals courts hear appeals from the local courts.

Defendants in criminal cases are entitled to counsel and to the writ of habeas corpus. Violations of civil liberties are punishable by fines and jail sentences. An ombudsman with the power of subpoena can investigate complaints of violations of civil liberties. The traditional culture, in addition to legal provisions, provides strong protection against arbitrary interference with privacy, home, family, and correspondence.

## 17 ARMED FORCES

The Solomon Islands has no military forces. There is a 500-member police force which also engages in border protection. Maritime surveillance is also provided by this police force, which is headed by a commissioner.

## 18 INTERNATIONAL COOPERATION

The Solomon Islands joined the UN on 19 September 1978 and belongs to ESCAP, FAO, IBRD, ICAO, IDA, IFAD, IFC, ILO, IMF, UNCTAD, UPU, and WHO. It participates in the Asian Development Bank, Commonwealth of Nations, G-77, and South Pacific Commission and Forum. The nation is a member of the WTO and a signatory of the Law of the Sea. In December 1997, Solomon Islands achieved full membership in UNESCO. The Solomon Islands has resident diplomatic representation only at the UN; the UN ambassador is also accredited to the US. The minister for foreign affairs serves as a roving envoy. The United Kingdom, Australia, New Zealand, Japan, China, and Papua New Guinea maintain diplomatic missions in Honiara; US interests are handled by its ambassador to Papua New Guinea.

## 19 ECONOMY

At least 80% of the population is tied to subsistence agriculture. The capital sector is dependent on the production of copra, timber, and fish for export, but outputs of other cash commodities—particularly cocoa, spices, and palm oil—have grown in recent years. The development of large-scale lumbering operations has increased timber production considerably, and concern about the preservation of forest resources led to government restriction of log exports in 1993. In the late 1990s, the economic downturn in Asia led to the collapse of the export market for logs—primarily Japan and South Korea. In late 1997, the government devalued the currency to encourage development of other export products and to discourage the growth of imports. The economy declined by 10% in 1998, and the government initiated cutbacks in government agencies. The islands are rich in undeveloped mineral resources such as lead, zinc, nickel, and gold.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the Solomon Islands' gross domestic product (GDP) was estimated at \$800 million. The per capita GDP was estimated at \$1,700. The annual growth rate of GDP was estimated at -10%. The average inflation rate in 2001 was 7.9%. 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 42% of GDP, industry 11%, and services 47%. aid receipts amounted to about \$137 per capita and accounted for approximately 22% of the gross national income (GNI).

## 21 LABOR

The wage labor force in 2002 totaled approximately 27,000. As of that year, 80% worked in agriculture, 5% had jobs in industry, and the remainder were in services. The country suffers from an

acute shortage of skilled workers, and an estimated 80% of professional and technical employees are recruited from overseas.

Most employed persons have a standard workday of between five and six hours, six days a week, with overtime bringing the average workweek to 45 hours. The minimum working age is 12, or 15 years old for work in factories or on ships. In practice, given low wages and high unemployment, there is little reason to hire children. The minimum wage was \$0.31 per hour in 2002. The Solomon Islands' largest trade union is the Solomon Islands National Union of Workers. Unions are free to organize and strike, although unions seldom strike. About 60% to 70% of wage earners were unionized as of 2001. Government regulations require employers to provide housing for workers whose jobs do not permit them to travel to and from home each day. Unions regularly engage in collective bargaining.

## 22 AGRICULTURE

About 2% of the total land area is utilized for temporary or permanent crops. Agriculture accounts for about 42% of GDP. Copra (coconut meat) is typically the dominant export and the economic lifeline of the Solomons; world copra prices strongly affect the economy, so that a decline in copra prices in 1985 inaugurated an economic slump, exacerbated by the effects of Cyclone Namu. In 1992, production of copra increased by over 30% from 1991, for a total of 38,500 tons. The rebound in 1992 came from a near doubling of world prices and better coordination of domestic shipping. Copra production in 1999 was estimated at 22,000 tons. About 75% of the copra is produced by small holders, principally on Guadalcanal, Choiseul, the Russell Islands, San Cristobal, Santa Isabel, and Vella Lavella. Development plans called for crop diversification and the construction of a copra mill on the islands. The overseas marketing of copra is a monopoly of the government's Solomon Islands Copra Board. Other agricultural products in 1999 included cocoa, 3,000 tons; palm oil, 31,000 tons; and palm kernels, 7,000 tons. In 2001, agricultural products accounted for 72.7% of exports and 41.1% of imports. Exports of palm, copra, and cocoa typically account for over 20% of total exports.

The major food crops are coconuts, yams, taro, sweet potatoes, cassava, and green vegetables. The government has encouraged the cultivation of rice, rotated with soybeans, in the Guadalcanal plains; however, cyclone losses resulted in increased dependence on imported rice.

## 23 ANIMAL HUSBANDRY

Cattle were traditionally kept on coconut plantations as a means of controlling the growth of grass, and many large copra plantations raised cattle for slaughter. There were 12,500 head of cattle and 67,000 pigs on the islands in 2001. Over 40% of the cattle are raised by small holders. The government's Livestock Development Authority (LDA) maintains about 3,200 head on Guadalcanal and Western Province. The LDA is now mostly a producer of trader pigs and poultry, raising 25,000 chicks and 120 piglets per month for sale. Production of pork has doubled since the early 1980s, yet still has not kept up with domestic demand. About 3,000 tons of meat were produced in 1998.

## 24 FISHING

Fish are an essential part of the local diet, and fishing has become an important commercial activity. In 1991, the total catch reached a record high of 69,292 tons; the total catch in 2000 was 23,443 tons. In 2000, the annual catch of skipjack tuna was 8,276 tons. Exports of fish products in 2000 were valued at nearly \$10.3 million.

## 25 FORESTRY

Forests cover about 88.8% of the total area, with about 2,536,000 ha (6,266,000 acres) of timber stands providing an estimated timber yield in 2000 of 872,000 cu m (30.8 million cu ft) of which about 700,000 cu m (24.7 million cu ft) was exported as logs. Exports of forest products were valued at \$51.2 million in 2000, 97% of it from logs. Important forest timbers are kuari, balsa, teak, Honduras and African mahoganies, Queensland maple, silky oak, and black bean. Several hundred chainsaw operators and about 40 portable sawmills produce over one-fifth of all sawn timber. Logging at current rates (15–16,000 ha/37–39,000 acres per year) exceeds the estimated maximum sustainable annual cut by three times, which means that logging at current rates will presumably exhaust commercially loggable forests in less than 10 years. Forest preservation and management legislation has been proposed, but there is no long-term viable silvicultural plan in place.

## 26 MINING

Although the archipelago was named in the 16th century for the fabled gold mines of King Solomon and had long-term mining potential, there have been insufficient high-quality mineral deposits to justify extensive mining investment. Mining was nevertheless the second-leading industry in 2002. Because of political and ethnic violence, mineral production in 2001 was limited to small quantities of common clays, crushed stone, and sand and gravel, and no gold or silver mining was reported (a minor amount of gold, and possibly associated silver, was obtained from primitive panning and sluicing by individuals); in 1999, production was 3,456 kg of gold and 2,138 of silver. The Gold Ridge Mine, at Mavu, which was closed from mid-2000 through the end of 2001, had undertaken a study to upgrade production from 3,100 kg per year to 4,500–4,700 kg per year, which could increase the mining sector's contribution to GDP from 1% to 15%. The country's main industrial prospects focused on its undeveloped mineral resources of gold-silver, lead-zinc, nickel, and phosphate. Deposits of bauxite, copper, chromite, and manganese ores have also been found.

## 27 ENERGY AND POWER

Most electric power is supplied by the government-controlled Solomon Islands Electricity Authority, although some private undertakings produce their own electricity. Electric generating capacity was 12,000 kW in 2001, and electrical output was 32 million kWh. Honiara accounts for 90% of electricity consumption, which totaled 29.7 million kWh in 2000. Oil and natural gas exploration continues, especially in Iron Bottom Sound, north of Guadalcanal. The government regulates petroleum exploration and production. In 1996, mineral fuels accounted for 11.3% of the total value of imports.

## 28 INDUSTRY

Industrial activity in the Solomons is rudimentary, lacking in both the capital and the skilled labor necessary for significant development. The leading industries are fish processing and timber milling; soaps are made from palm oil and coconut oil. Small firms produce a limited array of goods for the local market: biscuits, tobacco products, rattan furniture, baskets and mats, concrete blocks, boats, and fiberglass products.

## 29 SCIENCE AND TECHNOLOGY

The Solomon Islands College of Higher Education has schools of nursing, natural resources, marine and fisheries studies, and industrial development.

## 30 DOMESTIC TRADE

Honiara is the commercial center with a highly developed port and a wide variety of services to support trade and tourism. However, growth in both domestic trade and tourism has been hindered by inadequate infrastructure and security concerns. Most commercial enterprises have been controlled by Chinese or Europeans. A large segment of the population still relies on bartering. Normal banking hours are 9 to 11:30 AM and 1:30 to 3 PM, Monday–Thursday, and 9 AM to 3 PM on Friday. Normal office hours are 8 AM to 12 PM and 1 PM to 4:30 PM, Monday through Friday.

## 31 FOREIGN TRADE

Overseas trade volume expanded rapidly in the mid-1990s, but the economic woes in Asia in the late 1990s caused the export market to contract significantly. The distribution of the Solomon Islands' trade continues to be limited by the huge distances to potential export markets. The Solomon Islands' major exports are timber (68%) and fish (14%). Other exports include palm oil (6.5%), oil seeds (4.3%), and cocoa (1.7%).

In 1996 the Solomon Islands' imports were distributed among the following categories:

Consumer goods	13.4%
Food	13.7%
Fuels	24.7%
Industrial supplies	20.1%
Machinery	13.2%
Transportation	12.8%
Other	2.1%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	55	9	46
Thailand	39	3	36
United Kingdom	13	2	11
Philippines	11	2	9
Korea	10	9	1
Germany	9	1	8
Singapore	6	12	-6
China (inc. Hong Kong)	6	5	1
Australia	4	60	-56
New Zealand	1	7	n.a.

## 32 BALANCE OF PAYMENTS

In 1992, export earnings were exceptionally high, due to a massive income windfall from the steep rise in the volume of log exports at a time when prices in Asian markets were being driven up by a supply shortage. By the late 1990s, the market for logs had collapsed, causing strain to the Solomon Islands balance of payments. Most manufactured goods and petroleum products must be imported.

The US Central Intelligence Agency (CIA) reports that in 1999 the purchasing power parity of the Solomon Islands' exports was \$165 million while imports totaled \$152 million resulting in a trade surplus of \$13 million.

The International Monetary Fund (IMF) reports that in 1999 the Solomon Islands had exports of goods totaling \$165 million and imports totaling \$110 million. The services credit totaled \$56 million and debit \$87 million. The following table summarizes the Solomon Islands' balance of payments as reported by the IMF for 1999 in millions of US dollars.

<b>Current Account</b>	21
Balance on goods	55
Balance on services	-31
Balance on income	-17
Current transfers	15
<b>Capital Account</b>	9
<b>Financial Account</b>	31
Direct investment abroad	...
Direct investment in the Solomon Islands	10
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	0
Other investment liabilities	-44
<b>Net Errors and Omissions</b>	-2
<b>Reserves and Related Items</b>	5

### 33 BANKING AND SECURITIES

The Solomon Islands Monetary Authority became the Central Bank of the Solomon Islands (CBSI) in January 1983. Three commercial banks also operate on the islands: The Australia and New Zealand Banking Group, Westpac (which took over the Hong Kong and Shanghai Banking Corp.'s local operations in mid-1988), and the National Bank of Solomon Island (NBSI). Only the NBSI has branches outside the capital. Most villages rely on credit unions. The government's 49% shareholding in the NBSI was sold to the National Provident Fund as a part of a privatization program in 1992. The remaining 51% is held by the Commonwealth Banking Corp. of Australia (CBC).

The government participates in private investment projects through a holding company, the Investment Corp. of Solomon Islands (ICSI), the successor to the Government Shareholding Agency. It holds the government's equity in other financial institutions, notably the Development Bank of Solomon Islands (DBSI), as well as in many other companies, some of which are foreign-controlled. The government, via the ICSI, uses locally borrowed funds and foreign aid to assist industry. The government also guarantees commercial bank loans to companies in which the ICSI has an equity holding. The International Monetary Fund reports that in 1999, currency and demand deposits—an aggregate commonly known as M1—were equal to \$55.1 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$95.2 million.

### 34 INSURANCE

Insurance is sold through representatives of foreign firms. In 1997, GRE Insurance, the National Insurance Co. of New Zealand, QBE Insurance, and Zurich Australian Insurance were operating in the Solomon Islands.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 2001 the Solomon Islands's central government took in revenues of approximately \$38 million. Overall, the government registered a deficit of approximately 8% of GDP. External debt totaled \$137 million. Foreign aid accounts for 50% of government expenditures.

### 36 TAXATION

Individual incomes are taxed on a graduated scale ranging for single taxpayers from 14% on the first S\$2,100 of taxable income to 42% on taxable income exceeding S\$14,700. Companies incorporated in the Solomon Islands are taxed at a fixed rate of 35%; a rate of 50% applies to those incorporated elsewhere. A value-added tax on telephone services, restaurant food, and overseas travel tickets went into effect in August 1990. Employers contribute 7.5% of employee wages for social security; employees contribute 5% minimum. On 1 July 1990, a

resident withholding tax went into effect for royalties, fishing operations, sales of copra and cocoa, and certain other sources of income.

### 37 CUSTOMS AND DUTIES

All products imported into the Solomon Islands are subject to customs duties and a 20% surcharge is levied on all ad valorem goods. Specific duties apply to alcoholic beverages, tobacco, rice, and sugar. Concessionary rates have been granted to imports of industrial machinery and equipment, raw materials, chemicals, and building materials. Licenses are required for the importation of firearms, ammunition, animals, seeds, soil, and plant material.

### 38 FOREIGN INVESTMENT

The government encourages direct foreign investment through tax concessions, remission of customs duties, and other forms of assistance. Foreigners may repatriate profits (after taxes) and, under most conditions, capital investments. A primary role in the development of resources is reserved to the government. In 1990, Lever Brothers opened a coconut oil plant at Yandina.

### 39 ECONOMIC DEVELOPMENT

The government has attempted to diversify agricultural production in order to make the economy less vulnerable to world price fluctuations of such key cash crops as copra. Important development projects during the 1980s included new sawmills, a fish cannery, a spice industry, and the Lungga hydroelectric plant. Fisheries receive significant portions of development funds. A rubber industry is being developed, and plans are under way to export the indigenous ngali nut as an upscale confectionery product under the name "Solomons nut." In 1991, plans were announced for a S\$60 million hydroelectric plant on Guadalcanal, financed by the Asian Development Bank.

Foreign assistance plays an essential role in the nation's development strategy, with Australia and Japan the largest donors. In 1996, the Solomon Islands received US\$46.4 million in aid. Aid is also received from the IBRD, ADB, and EC.

### 40 SOCIAL DEVELOPMENT

A National Provident Fund covering certain categories of wage workers provides old age, disability, and survivor benefits in lump-sum payments. This program is financed from worker and employer contributions. Employers cover the cost of workers' compensation. The Employment Act mandates that employers pay dismissal indemnity of 2 weeks' wages for each year of employment. The bulk of organized welfare services are provided by church missions. In small villages and outlying areas, assistance is traditionally provided through the extended family.

Although women are accorded equal rights by law, their role is limited by customary family roles in most Solomon Islands societies. Due to cultural barriers, a majority of women are illiterate, which contributes to a general shortage of employment opportunities for women. Domestic abuse and violence are common.

The government generally respects the human rights of its citizens. However, the armed conflict between rival militias has resulted in the deterioration of human rights.

### 41 HEALTH

Poor standards of general hygiene and inadequate sanitation continue to make malaria and tuberculosis endemic. Adequate sanitation was available to 60% of the entire Solomon Islands population in 1989-90.

Infant mortality was estimated at 23.7 deaths per 1,000 live births as of 2002; average life expectancy was an estimated 72 years for both men and women. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 33.3 and 4.2 per 1,000 people. The immunization rates for children

under one year were as follows in 1995: diphtheria, pertussis, and tetanus, 69%; polio, 68%; measles, 68%; and tuberculosis, 77%.

The overwhelmingly most prevalent disease reported was malaria. Reports documented 153,359 cases in 1992. The incidence per 1,000 people was 437.6 in 1991. Many of the five island nations in the South Pacific have insufficient vitamin A levels. The incidence of xerophthalmia was present in 1.55% of all children in the Solomon Islands.

In 1999, 15 new cases of leprosy were reported by the World Health Organization, which is advocating multidrug therapy and screening of people in high risk areas to counter the spread of this disease that was once believed to have been eradicated.

## 42 HOUSING

The government has built low-cost housing projects in Honiara to help ease congestion. Outside Honiara, housing is primitive, with overcrowding a problem even in the smaller villages. As of 1996, 80% of the population lived in villages of less than 300 people. According to a 1999 census, there were 65,014 households, 98% of which were single family households. The average household had 6.3 members. Only 52% of all households had access to piped drinking water, 23% had modern toilet facilities, and 16% had access to electricity.

Since 1998, the government, through the Ministry of Lands and Housing, has been focusing on programs for improved housing and utilities for all.

## 43 EDUCATION

About 60% of the adult population is estimated to be literate. Education is not compulsory, and many schools charge fees. In 1976, the government began substantial aid to primary as well as secondary schools. Christian missions (mainly Anglican), supported by government grants, continue to provide some primary schooling. In 1994 there were 60,493 students and 2,514 teachers at the primary school level. Student-to-teacher ratio stood at 24 to 1. Secondary schools (general) had 7,811 pupils and approximately 400 teachers in 1994. Higher education is provided by the Solomon Islands Teachers College (Honiara), the Honiara Technical Institute, and the University of the South Pacific Solomon Islands Center, also in Honiara.

## 44 LIBRARIES AND MUSEUMS

The National Library (founded in 1974) in Honiara has two branches and a collection of over 100,000 volumes. The library at the Solomon Islands Center of the University of the South Pacific holds 9,000 volumes. The Solomon Islands National Museum and Cultural Center began collecting in the 1950s and opened a permanent site in 1969. The Center promotes and provides research into all aspects of Solomons culture.

## 45 MEDIA

The main post office is at Honiara. As of 1997, there were some 8,000 main telephone lines on the islands, with an additional 658 cellular phones in use; a radiotelephone service provides overseas links. A government-owned radio service has 5 transmitters. As of 1999 there were 4 AM radio stations, 2 FM stations, no television stations, and two weekly newspapers. There were 80 radios and 4 televisions per 1,000 population in 1997. In 2000, Internet access was available through one service provider, which

served 3,000 subscribers that year. Periodicals include the *Solomon Voice* (weekly, 2002 circulation 10,000), *Solomon Star* (weekly, circulation 4,000), and the *Solomon Nius* (monthly, 2,000). The government is said to generally respect constitutional provisions for freedom of speech and of the press.

## 46 ORGANIZATIONS

Cooperative societies are important in rural areas for the distribution of locally produced goods. Honiara has a chamber of commerce. YMCA and YWCA chapters are active. There are also chapters of Habitat for Humanity and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

Tourism, although encouraged by the government's Tourist Authority, is not seen as a major growth area, owing to lack of investment. In 1999, approximately 21,000 tourists visited the Solomon Islands, the vast majority arriving from East Asia and the Pacific. Tourism receipts totaled US\$7 million. A passport and an onward ticket are required for entry.

The cost of staying in Honiara, according to 1999 UN estimates, ranges from US\$87. Travel expenses in Gizo are estimated at \$103, and in Auki at \$61.

Popular pastimes include rugby football, soccer, basketball, and water sports.

## 48 FAMOUS SOLOMON ISLANDERS

Sir Peter Kenilorea (b.1943), Solomon Mamaloni (b.1943), and Ezekiel Alebua (b.1947) were the Solomons' political and government leaders from independence to the 1990s.

## 49 DEPENDENCIES

The Solomon Islands has no territories or colonies.

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# SRI LANKA

Democratic Socialist Republic of Sri Lanka  
*Sri Lanka Prajathanthrika Samajavadi Janarajaya*

**CAPITAL:** Colombo

**FLAG:** The national flag contains, at the hoist, vertical stripes of green and saffron (orange-yellow) and, to the right, a maroon rectangle with yellow bo leaves in the corners and a yellow lion symbol in the center. The entire flag is bordered in yellow, and a narrow yellow vertical area separates the saffron stripe from the dark maroon rectangle.

**ANTHEM:** *Sri Lanka Matha (Mother Sri Lanka).*

**MONETARY UNIT:** The Sri Lanka rupee (R) of 100 cents is a paper currency with one official rate. There are coins of 1, 2, 5, 10, 25, and 50 cents and 1 and 2 rupees, and notes of 10, 20, 50, 100, 500, and 1,000 rupees. R1 = \$0.0103 (or \$1 = R96.34; as of April 2003).

**WEIGHTS AND MEASURES:** The metric system is the national standard, but British weights and measures and some local units also are used.

**HOLIDAYS:** Independence Commemoration Day, 4 February; May Day, 1 May; National Heroes Day, 22 May; Bank Holiday, 30 June; Christmas Day, 25 December; Bank Holiday, 31 December. Movable holidays include Maha Sivarathri Day, Milad-an-Nabi, Good Friday, 'Id al-Fitr, Dewali, and 'Id al-'Adha'; in addition, the day of the rise of the full moon of every month of the Buddhist calendar, called a Poya day, is a public holiday.

**TIME:** 5:30 PM = noon GMT.

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

Sri Lanka (formerly Ceylon) is an island in the Indian Ocean situated S and slightly E of the southernmost point of India, separated from that country by the 23 km- (14 mi-) wide Palk Strait. Including 870 sq km (336 sq mi) of inland water, Sri Lanka has a total area of 65,610 sq km (25,332 sq mi), extending 435 km (270 mi) N-S and 225 km (140 mi) E-W. Sri Lanka's total coastline is 1,340 km (833 mi). Comparatively, the area occupied by Sri Lanka is slightly larger than the state of West Virginia. Sri Lanka's capital city, Colombo, is located on the southwest coast.

## <sup>2</sup>TOPOGRAPHY

The south-central part of Sri Lanka is a rough plateau cut by a range of mountains whose highest peak is Pidurutalagala, 2,524 m (8,281 ft). Narrow coastal plains skirt the mountainous section on the east, south, and west, but in the north the extensive coastal plain fans out, reaching from the eastern to the western shores of the island. Five-sixths of the land is less than 300 m (1,000 ft) in elevation. Numerous rivers and streams flow seaward in all directions from the central mountain area; the longest river, flowing northeastward, is the Mahaweli Ganga (332 km/206 mi).

## <sup>3</sup>CLIMATE

The climate, although tropical and monsoonal, varies from warm in the coastal plains and lowlands to temperate in the hill and mountain regions. The lowlands in the northeast receive an average rainfall of about 130 cm (50 in), and the hill country in the southwest has an average of 254 to 508 cm (100 to 200 in), most of the rain coming during the monsoon season. Elsewhere, average rainfall varies from 63 cm (25 in) to 190 cm (75 in). Located only 879 km (546 mi) north of the equator, Sri Lanka has neither summer nor winter but only rainy and dry seasons. Average temperature is 27°C (80°F).

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

Most plants and animals are those common to southern India, but there are additional varieties. The plant life ranges from that of the equatorial rain forest to that of the dry zone and the more temperate climate of the highlands. Tree ferns, bamboo, palm, satinwood, ebony, and jak trees abound. The wide range of mammals, birds, and reptiles once found in Sri Lanka has been reduced by the conversion of forests into rice fields, but water buffalo, deer, bear, elephants, monkeys, and leopards are among the larger animals still present. The Ceylon elk (*sambhur*) and the polonga snake are unique to Sri Lanka. Birds are numerous, many varieties from colder countries wintering on the island. Sri Lanka has well-organized game and bird sanctuaries. Insects abound and numerous fish are found in the shallow offshore waters.

## <sup>5</sup>ENVIRONMENT

Sri Lanka's principal environmental problem has been rapid deforestation, leading to soil erosion, destruction of wildlife habitats, and reduction of water flow. In 1985, the total amount of land affected by deforestation was 224 sq mi. The government began a reforestation program in 1970, and since 1977, it has banned the export of timber and the felling of forests at elevations over 1,500 m (5,000 ft) and the export of timber. Nevertheless, between 1981 and 1985, some 58,000 hectares (143,000 acres) of forestland were lost each year and the nation lost an additional 21.4% of its forest and woodland between 1983 and 1993.

The nation's water has been polluted by industrial, agricultural, and mining by-products along with untreated sewage. As a result, only 70% of the people living in rural areas have pure water. Air pollution from industry and transportation vehicles is another significant environmental concern. The main environmental agency is the Central Environmental Authority within the Ministry of Industry and Scientific Affairs. Although legislation to protect flora and fauna and to conserve forests has

been enacted, there has been inadequate enforcement of the laws, and the nation's wildlife population has been reduced by poaching.

Wildlife has been protected since 1937; by 2001, protected areas covered about 13.3% of the country's total land area. As of 2001, 14 of Sri Lanka's mammal species and 11 of its bird species are endangered. Endangered species include the Asian elephant, green labeo, spotted loach, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback). In addition, 431 types of plants are threatened with extinction.

## 6 POPULATION

The population of Sri Lanka in 2003 was estimated by the United Nations at 19,065,000, which placed it as number 53 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 27% of the population under 15 years of age. There were 107 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.81%, with the projected population for the year 2015 at 20,640,000. The low growth rate is a result of concerted family planning programs. The population density in 2002 was 289 per sq km (748 per sq mi). About 50% of the population is concentrated in the southwestern quarter of the island.

It was estimated by the Population Reference Bureau that 24% of the population lived in urban areas in 2001. Colombo, the commercial capital and chief city, had a population of 690,000 in that year. Other urban centers are Dehiwala-Mt. Lavinia, 96,000; Moratuwa, 70,000; Jaffna, 129,000; Kotic, 109,000; and Kandy, 104,000. According to the United Nations, the urban population growth rate for 2000–2005 was 2.8%.

## 7 MIGRATION

Under an agreement signed in 1964, India pledged to repatriate 525,000 of the 975,000 persons of Indian origin (Tamils) then on the island, while Ceylon agreed to absorb 300,000 and grant them Ceylonese citizenship. Of the remaining 150,000, 75,000 were repatriated by a separate agreement concluded in 1974, and an equal number became citizens of Sri Lanka.

In recent years, many Sri Lankan workers have migrated to work in Middle Eastern countries. Others—over 200,000 in all—have emigrated to Western Europe, Australia, and North America, in part as a result of the Tamil insurgency.

Due to the military activities in 1995 and 1996, an estimated 650,000 people have been internally displaced. As of May 1997, India's Tamil Nadu state had around 56,000 refugees from Sri Lanka with another 36,000 throughout India. Repatriation to Sri Lanka has ceased since the military conflicts started again in 1995. Over 54,000 refugees have returned from southern India since 1992. In 2000, the net migration rate was -1.7 migrants per 1,000 population. There were 397,000 migrants living in Sri Lanka that year. Worker remittances amounted to \$1,142,000,000, or 7% of GDP. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

According to official 1999 data, the Sinhalese constitute the largest population group, making up 74% of the total population. Sri Lankan Tamils (descendants of medieval invaders from India) total 18%; Sri Lankan Moors 7%; Burghers (descended from the Dutch), Malays (mostly of Arab extraction), and Veddas account for 1%. The Veddas are a small aboriginal tribe located in the most inaccessible forest regions of southeastern Sri Lanka.

## 9 LANGUAGES

English was the official language under the British and remained so until 1956, when Sinhala became the nation's one official

language. This measure was bitterly opposed by the Tamil minority. Riots, disorders, and dissension grew, leading to a Tamil civil disobedience campaign and a temporary state of emergency. The 1978 constitution recognized Sinhala as the official language but also recognized Tamil as a national language. Sinhala is a member of the Indo-Aryan subgroup of the Indo-European language family, related to Pali. Tamil is a Dravidian language spoken in northern and eastern Sri Lanka and in southern India. It became an official language in December 1988. In 1999, Sinhala was spoken by approximately 74% of the population; Tamil was spoken by 18%. English is also commonly used in government and is spoken by about 10% of the population.

## 10 RELIGIONS

Of the total population, Buddhists constitute nearly 70% and are almost without exception ethnic Sinhalese; Hindus amount to 15% of the total population and are almost exclusively ethnic Tamils; Muslims account for 8% (and may or may not be Tamil speakers) and include the Moor and Malay communities; and Christians, accounting for 7%, are to be found in the Sinhalese, Burgher/Eurasian, and Sri Lankan Tamil communities (not to be confused with the so-called Indian Tamils, who were imported as plantation workers in the last century and are exclusively Hindu). A majority of Christians are Roman Catholic, with Anglicans and Baptists also significant, the latter the result of American missionary activity in the north in the 19th century.

The religious atmosphere is traditionally tolerant, and the issues involved in the Tamil insurgency are communal and ethnic rather than religious in origin. The 1978 constitution established Sri Lanka as a secular state and guarantees freedom of religion, while stipulating that Buddhism enjoys the foremost place in the republic.

## 11 TRANSPORTATION

In 2002, the country had an estimated 11,285 km (7,012 mi) of highways, of which 10,721 km (6,662 mi) were paved. Registered motor vehicles numbered 291,000 in 2000, including 153,500 passenger cars and 137,500 commercial vehicles.

In 2002, there were 1,463 km (909 mi) railroad track, state-owned and state operated.

Colombo, one of the great commercial seaports of Asia, formerly was an open roadstead, but the construction of breakwaters has made it one of the world's greatest artificial harbors. In 2002, the merchant fleet consisted of 18 ships with a capacity of 137,321 GRT. Ports of the open roadstead type are Trincomalee, Galle, Batticaloa, Kankasanturai, Kayts, and Jaffna. A car ferry service links Mannar Island with the Indian mainland.

Sri Lanka had 15 airports in 2001, 14 of which had paved runways. The principal international airport is Katunayaka, 39 km (24 mi) north of Colombo. Air Lanka (formerly Air Ceylon), the national airline company, serves international routes only. Upali Travels, a private carrier, provides domestic service. In 2001, 1,718,500 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The earliest Indo-European speaking settlers in present-day Sri Lanka, the Sinhalese, came late in the 6th century BC, probably from northern India. Later arrivals from India brought Buddhism beginning about 240 BC, and at such cities as Anuradhapura and Polonnaruwa, the Sinhalese developed a great civilization, much of which was later destroyed by civil wars and by the incursions of Hindu Dravidian-speakers from across the Palk Strait, who established a Tamil kingdom in the northern part of the island.

The Portuguese East India Company brought the first European rulers in the early 16th century, and in time, the Portuguese conquered the entire island with the exception of the





LOCATION: 5°55' to 9°50' N; 79°42' to 81°53' E. TERRITORIAL SEA LIMIT: 12 miles.

Sinhalese kingdom in Kandy in the central plateau. By the middle of the 17th century, the Portuguese were driven out of Sri Lanka (and southern India) by the Dutch East India Company, which governed for more than 100 years, introduced plantation agriculture, developed trade, and left a legacy that includes Roman-Dutch law. But they too found themselves displaced.

Having won their struggle with France for mastery in India (and in North America), the British laid claim to Sri Lanka, which they called Ceylon, at the end of the 18th century after the Netherlands fell under French control. After a brief period as part of the British East India Company's Indian domain, Ceylon was designated a crown colony in 1802, and by 1815, the entire island was united under British rule. The British introduced

coffee, tea, coconut, and rubber plantations, and efficient and enlightened administration.

With the development of a nationalist movement across the Palk Strait in India in the 20th century, nationalists in Ceylon also pressured for greater self-rule, leading to further democratic political reforms in constitutions enacted in 1910, 1920, 1924, 1931, and 1947; included in the 1931 enactment was limited self-rule under universal suffrage. In 1948, with little actual struggle, and a year after Indian independence, Ceylon became a self-governing dominion within the British Commonwealth.

The period from 1948 through 1970 saw the evolution of Ceylon's multiparty parliamentary system in which orderly and constitutional elections and changes of government took place. Beginning in 1970, executive power began to be highly centralized under Prime Minister Sirimavo Bandaranaike, who from 1971–77 ruled with the use of unpopular emergency powers in support of her socialist, pro-Sinhalese policies. She introduced a new constitution in 1972, converting the dominion of Ceylon to the republic of Sri Lanka, reaffirming a parliamentary system under a weak, ceremonial presidency, and making the protection of Buddhism a constitutional principle.

The Sri Lanka Freedom Party (SLFP) defeat in the July 1977 elections brought Junius Richard Jayewardene of the more moderate United National Party (UNP) to power. He became Sri Lanka's first elected executive president in February 1978, under a constitutional amendment of fall 1977 establishing a presidential form of government. Seven months later, a new, more liberal constitution came into effect, rejecting many of the authoritarian features of the 1972 constitution, introducing proportional representation, and defining the presidential executive system. As his prime minister, he chose Ranavive Premadasa, a long-time follower with lower caste support. In October 1982, Jayewardene was popularly elected to a new six-year term, and two months later, in a successful effort to avoid general elections, the life of the sitting parliament was extended through July 1989 by means of a constitutional amendment endorsed by popular referendum.

Since 1978, rising tensions and violence between the majority (mostly Buddhist) Sinhalese and minority (mostly Hindu) Sri Lankan Tamil communities that have long shared the island have dominated political life. Going back to 1956, when the Sinhalese-dominated government had declared Sinhala the official language and replaced English with separate language tracks in education for Sinhala and Tamil speakers, a chasm had been developing between the communities. In the late 1970s, moderate Sri Lankan Tamils looked to the leadership in the Tamil United Liberation Front (TULF) and to negotiations with the new UNP government in 1978 to pursue changes aimed at protecting their cultural heritage by giving greater control to elected officials at the local level in Sri Lankan Tamil majority areas of the island.

By the early 1980s, their efforts had failed. Participation in parliament as a responsible opposition had brought no changes, despite government promises; and many rounds of talks with Jayewardene and the majority Sinhalese community had netted no progress in redressing Tamil grievances. Violence was on the rise, and a spasm of communal bloodletting in summer 1983 had left hundreds, if not thousands, dead in Colombo and elsewhere. By 1984–85, Sri Lankan Tamil leadership had fallen into the hands of extremists advocating violence, dooming to failure before it began the government's eleventh-hour convening of an All-Party conference in 1984 to seek a political solution to the ethnic conflict.

Fighting between the Sinhalese-dominated army and well-armed Sri Lankan Tamil separatists escalated in 1986 and 1987, with no solution in sight. It should be noted that the insurgency is limited to the larger group of Sri Lankan Tamils; the so-called Indian Tamils who were imported in the last century and continue to work the plantations in the highlands at the center of

the island, and whose partial repatriation to India has been at times a subject for separate negotiations with India, have played no role in the insurgency.

In the spring of 1987, the government began a military offensive against Tamil forces in the Jaffna Peninsula in the Northern Province. India, sensitive to its own large Tamil population just across the strait, served as a base for rebels. Earlier, the Indian government had attempted to negotiate a settlement between the Sri Lankan government and the rebels, but in 1987 India reacted to the offensive by airlifting food and supplies to the rebels, creating considerable tension between the two countries. On 29 July, Jayewardene and Prime Minister Rajiv Gandhi of India signed an agreement by which the Sri Lankan government reluctantly accepted the need for devolution of power to the provinces, agreed that Tamil would have official status, and conceded that a semiautonomous administrative unit would be created for the Tamils in the Northern and Eastern provinces, subject to a vote by the Eastern Province on joining such a unit. An Indian peacekeeping force which grew eventually to more than 100,000 troops was sent to Sri Lanka to implement the agreement and enforce a cease-fire. But it was already too late. In the fall of 1987, Tamil separatists—notably and most prominently, the extremist Liberation Tigers of Tamil Ealam (LTTE)—resumed their attacks, killing about 300 people. When they refused the protection of the Indian Peacekeeping Force (IPKF), the IPKF launched an offensive against the rebel stronghold in Jaffna. Fighting continued, inconclusively, between the IPKF and (mainly) the LTTE for 18 months thereafter, with heavy casualties on both sides.

Meanwhile, through 1988 and 1989, the government was under attack from the militant Sinhalese nationalist political party, Janatha Vimukthi Peramuna (JVP), which sought its overthrow by agreeing to the presence of Indian forces in Sri Lanka. The rebellion was put down firmly and brutally by President Premadasa, who succeeded Jayewardene in 1988 in a close race against Sirimavo Bandaranaike.

In 1990, V. P. Singh, who had replaced Rajiv Gandhi as Indian Prime Minister, agreed to Sri Lanka's request that India pull its forces out of the country; the Indian effort to crush the rebellion had failed at the cost of an estimated 1,200 Indian lives alone. With the JVP opposition eliminated and the Indians gone, Premadasa turned his attention to the possibility of expanding the new situation, including a de facto cease-fire with LTTE, into a negotiated settlement. But a new spasm of LTTE violence in the eastern province led him to order an all-out army and air force campaign against the north in the second half of 1990, and guerrilla warfare resumed. Through 1991 and 1992, Premadasa's government continued to pursue the possibility of a negotiated settlement with the LTTE, denying it sought a military solution. But the LTTE's Velupillai Prabhakaran, dominating the separatist side, rejected most government terms.

Under President Wijetunga, who replaced Premadasa when the latter was assassinated by Tamil rebels on May Day 1993, the warfare, and the search for a solution, continued inconclusively, with frequently announced cease-fires and resummptions. The death toll and the cost, reportedly \$1 million per day, continued to mount.

Chandrika Bandaranaike Kumaratunga, 49-year-old daughter of former prime minister Sirimavo Bandaranaike and widow of a Communist Party leader assassinated nearly a decade earlier, became prime minister when her seven-party alliance of leftist parties won a plurality in snap elections to parliament in August 1994. With President Wijetunga's approval, she made resolution of the conflict her first priority on taking office by arranging for the economic blockade of the insurgent-held Jaffna peninsula to be partially lifted and offering to restore electric power to the area. She also offered unconditional talks for a resolution of the dispute, actions welcomed by the LTTE's Prabhakaran, who

responded by releasing ten police constables held prisoner by the LTTE since mid-1990. Talks were scheduled for mid-October 1994 and the situation calmed for a time. The optimism that characterized the political situation in Sri Lanka at the beginning of 1995 quickly vanished as the nation lapsed again into a savage civil war. Hostilities between the Sri Lankan government and ethnic separatist Tamil rebels came to a temporary end on 3 January 1995, when the parties announced a cease-fire. The war that raged for twelve years and killed over 34,000 people halted abruptly with government promises of negotiations and an \$816 million aid package for the northern portion of the island.

The peace was shattered, however, after only three months. The LTTE had given the government a 19 April deadline to make additional concessions. When their demands were not met, rebels attacked and badly damaged two government gunboats, killing eleven sailors and wounding twenty-two. Before the end of May the Tamil Tigers had attacked an army base, ambushed two government military patrols, and shot down two troop transport planes, killing more than 350 government fighters. In response, on 22 May Sri Lankan President Chandrika Bandaranaike Kumaratunga pronounced the peace talks dead and vowed to crush the Tamil rebels.

Full scale war continued through the summer of 1995 as the government went on the offensive. Incensed by a series of June terrorist attacks against targets in Hikkadawa and Colombo, President Kumaratunga asked the Indian government for assistance in setting up a naval blockade of the Tamil stronghold of Jaffna on the island's north coast. The Sri Lankan army then attacked rebel positions on the Jaffna peninsula, announcing on 15 July that the operation had left 300 Tamil troops dead in six days of fierce fighting. The government capped the offensive by unveiling in early August a plan to end the civil war by sharing power with eight new states, one of which would be reserved for the minority Tamils.

Rebel leader Velupillai Prabhakaran rejected the proposal out of hand and ordered that the Tamil terror campaign continue. On 7 August a bomb destroyed a government building in Colombo, killing twenty-four and wounding fifty. At the end of the month rebels hijacked a ferry carrying 136 passengers and sank two government gunboats. During the first week of October, the Tamil Tigers blew up the house of Douglas Devananda, a Sri Lankan legislator and severe critic of the militant separatist group. Less than two weeks later rebels attacked three villages on the northeastern portion of the island, killing over 100 civilians.

Deaths of non-military personnel strengthened the government's resolve to end the fighting quickly. By the beginning of November the Sri Lankan army had marched to within three miles of Tamil headquarters at Jaffna, displacing at least a half million civilians in the process. After days of savage combat, government forces captured the rebel political capital, and sealed off the area, trapping over 2,000 guerrillas. At the end of November, Sri Lanka authorities offered to work out a political settlement with the separatists, but the Tamil fighters announced that they would resume talks only if government troops left Jaffna. Fighting continued, culminating in a 31 January rebel attack on the financial district in Colombo which killed more than 90 and wounded 1,400. By the end of 1996 the death count for almost 15 years of civil war had surpassed 50,000.

By late spring 1996 government forces again appeared to have the upper hand. Pushing further into rebel territory, Sri Lankan army officials claimed in mid-May to have control of the northern Jaffna peninsula. On 30 May, the government chief general offered amnesty to 20,000 deserters and announced plans to recruit 10,000 additional soldiers to end the civil war once and for all. Still, the war went on through the end of 1996 with no cease-fire in sight.

A strong showing in local elections in March 1997 was seen by the government as a mandate to continue with its plans for

offering the Tamils limited autonomy. Despite opposition from the UNP, the government presented its proposals to Parliament in October. However, a series of bombing incidents diminished the prospects for peace. In mid-October a truck bomb exploded near a Colombo hotel, with foreign tourists apparently deliberately targeted by the LTTE. In late January 1998, following a suicide bombing in Kandy at the "Temple of the Tooth," Sri Lanka's most sacred Buddhist shrine, the government formally outlawed the LTTE. This, in effect, indicated that the government had put peace negotiations on hold and was leaning towards a military solution.

Following a spate of bombings and the assassinations of moderate Tamil leaders in Jaffna, the government declared a national state of emergency in August 1998. Its war against the LTTE, however, fared badly. In December 1998, the army abandoned its costly campaign to capture the main northern highway to Jaffna. Disaster struck in November 1999 when, in one week, Tamil guerrillas regained nearly all the territory lost during the previous two years. LTTE successes continued, with the capture of Elephant Pass in April 2000 trapping some 35,000 government troops on the Jaffna peninsula.

Citing the failure of parliament to accept her plan for regional autonomy for the Tamil areas in October 1999, President Kumaratunga decided to hold presidential elections 10 months ahead of schedule. Surviving an assassination attempt a few days before polling in December, Kumaratunga was returned to office for a second term as president.

Parliamentary elections were held 7 December 2001. They were the most violent held in 53 years, with 61 people killed and over 700 injured from 21 October to the election. The vote was also marked by allegations of intimidation and fraud. The army prevented tens of thousands of Tamil voters from traveling out of rebel-controlled areas to vote. It was a victory for the opposition United National Party (UNP) and its candidate Ranil Wickremasinghe, defeating President Kumaratunga's People's Alliance. Muslim and Tamil parties backed the UNP.

As of February 2003, the number of people killed in the fighting was approximately 65,000, and the number displaced was 1.6 million. In February 2002, Sri Lanka and the LTTE signed a cease-fire agreement that implied the two sides would move toward peace talks. The LTTE insisted the government lift its ban on the group before peace talks could begin. In May, the two sides held their first direct talks in 7 years. In early September, the Sri Lankan government lifted its ban on the LTTE, and on 16 September formal peace talks were held in Thailand. The most difficult issue to be resolved, whether the north and east will be independent or autonomous, was initially shelved. However, in four days of peace talks held in Oslo, Norway in December, the government and the LTTE agreed to share power in a federal system. The Tamils would have autonomy in the north and east of the island, but not a separate state. A round of talks held in February 2003 in Berlin, Germany focused on humanitarian issues, including a pledge by the rebels to cease recruiting child soldiers and to reintegrate them into society. The question of power sharing was due to take place in March in Japan. The issue is contentious since any formal agreement must be approved by President Kumaratunga, who says she supports the peace process, but has chided the government of Prime Minister Ranil Wickremasinghe for making concessions to the Tamil Tigers. That February, the two main opposition parties in parliament, the People's Alliance and the People's Liberation Front, agreed to join forces to attempt to replace Wickremasinghe's government. Wickremasinghe's coalition, led by his United National Party, held 114 seats in the 225-member parliament, and the two opposition parties controlled a total of 93 seats, making it unlikely the alliance would be able to obtain a majority. The two parties were upset with rising prices on commodities and concessions made to the LTTE.

## <sup>13</sup>GOVERNMENT

The constitution of September 1978 established the Democratic Socialist Republic of Sri Lanka as a free, sovereign, independent state based on universal suffrage at 18 years of age. The president of the republic is directly elected for a six-year term and serves as head of state and as executive head of government, appointing and heading the cabinet of ministers whom he or she chooses and who are (or must quickly become) members of parliament. A prime minister, similarly selected, serves mainly as parliamentary leader.

Legislation approved by parliament cannot be vetoed by the president, and the president may be removed by parliament upon a two-thirds majority vote, following a finding by the Supreme Court of incapacity, treason, corruption, or intentional constitutional violation. The constitution can be amended by two-thirds' majority vote in the parliament, subject to ratification (for certain provisions) by popular referendum. The constitution provides that popular referenda also may be held on issues of national importance, but the normal business of legislation is in the hands of a unicameral parliament consisting first of 168—now 225—members elected for six-year terms under a proportional representation system. The sitting parliament elected in July 1977 took the unusual step of extending its own life for another six years by a national referendum in 1982, thus avoiding elections in which the competition for places on the ballot might have weakened the UNP's constitution-amending two-thirds majority.

In June 1994, the Wijetunga government scheduled "snap" elections for parliament on 16 August 1994, six months earlier than would have been required; elections to the presidency followed parliamentary polling. Paced by the electoral appeal of SLFP deputy leader Chandrika Bandaranaike Kumaratunga, the People's Alliance of seven leftist parties won a clear plurality in the elections, ousting the UNP after 17 years in power. To the 91 parliamentary seats the Alliance won directly were added an additional 14 under the proportional system, and with the further support of 9 members of the Sri Lanka Muslim Congress, the new Peoples' Alliance government was able to command a majority of 114 seats in the 225-member house and to elect Kumaratunga as leader of the house, facilitating her prompt appointment as prime minister—an office previously held by both her ailing 80-year old mother and her late father, S.W.R.D. Bandaranaike.

Because the presidential system incorporated in the 1978 constitution vests the substantial powers of head of state and head of government in the hands of the president, Kumaratunga's capacity for independent action remained limited. As prime minister, she was actually little more than leader of the house but in the November 1994 presidential elections, Kumaratunga, who is the daughter and the widow of prominent Sri Lankan politicians (both of whom were assassinated) was elected president by a sizeable majority. After assuming office, she appointed her mother, Sirimavo Bandaranaike, prime minister. Upon being elected, she made her primary issue a negotiated peace with the Tamil separatists. Kumaratunga's repeated offers of a limited sovereignty within a greater Sri Lankan state were spurned by the Tamils. Attempts to subdue the Tamils by military force also failed, with the Sri Lankan army suffering serious reversals in November 1999. Despite this, in December 1999 Kumaratunga won a second six-year term in office as Sri Lanka's president. Kumaratunga's People's Alliance party was defeated in parliamentary elections held in December 2001, and Ranil Wickremasinghe of the United National Party became prime minister. A cease-fire between the Tamils and the government was signed in February 2002, and peace talks began later that year. As of February 2003, there was friction between the People's Alliance and its partner the People's Liberation Front, and

Wickremasinghe's government, largely over the terms of the agreements being made with the LTTE.

## 14 POLITICAL PARTIES

Political life in Sri Lanka is open and vigorous, with a wide range of views represented among the political parties, many of which have their roots deep in the pre-independence era. In the time since independence, considerations of religion, language, and culture have largely displaced ideology as the issues around which multi-ethnic Sri Lanka's political life evolves. In the last decade, ethnic struggle—and violence—between the government, dominated by majority Sinhalese, and militant minority Tamil separatists has dominated the political process.

The United National Party (UNP) was the main party of the independence movement, and its widely respected leader, D. S. Senanayake, as head of a coalition of which the UNP was the chief unit, became Ceylon's first prime minister after independence. He won a major victory in 1952 and continued in power until he died in 1956. The divided opposition failed to agree on a leader until 1951, when Solomon Bandaranaike left the UNP to form the Sri Lanka Freedom Party (SLFP). Over the years, the SLFP became the island's other major political party, advocating—like the UNP—a non-aligned foreign policy, with the UNP friendlier to the West, the SLFP, to the former Eastern bloc. Both find their support from within the majority Sinhalese community, and like most other parties, both are led mostly by high caste Sinhalese.

Shortly before the 1956 elections, Bandaranaike formed the People's United Front (Mahajana Eksath Peramuna—MEP), composed of his own SLFP, the Trotskyite Lanka Sama Samaja (LSSP), and a group of independents. The MEP called for the extension of state control, termination of British base rights, nationalization of tea and rubber plantations, and a foreign policy of strict nonalignment. In the elections, the MEP won 51 seats, and Bandaranaike became prime minister, holding power until September 1959 when he was assassinated by a Buddhist monk.

In elections March 1960, the UNP won 50 of the 151 seats at stake, the SLFP, 46 seats, and other parties, the remaining 55. UNP leader Dudley Senanayake failed to muster a majority, and new elections were called for July. In this second round of polling, the UNP won a majority of the popular vote but only 30 seats. The SLFP, led by its slain leader's widow, Sirimavo Bandaranaike, won 75, and with her supporters on the left, she was able to form a government, becoming the first woman in the world to hold office as prime minister. She committed her government to pursuing continuation of her husband's agenda, including nationalization of enterprises.

In the 15 years that followed, the UNP and the SLFP alternated in power for periods no longer than seven years. In 1965, Dudley Senanayake became prime minister after the UNP won 66 of the 151 legislative seats, but the SLFP's Sirimavo Bandaranaike was returned to power in the 1970 elections as the head of a coalition that included the Trotskyite LSSP and the pro-Soviet Ceylon Communist Party (CCP). In response to an insurrection fomented in 1971 by the Janatha Vimukthi Peramuna (JVP), a militant Sinhalese party in the south, Bandaranaike imposed a state of emergency on the island that lasted for 6 years. She pushed through a new constitution in 1972.

By 1977, Banderanaiké's public image had declined. No longer supported by her former coalition partners, she was humiliated at the polls by J. R. Jayewardene's UNP which was returned to power with 51% of the popular vote and 142 of (the then) 168 seats in parliament. The moderate Tamil United Liberation Front (TULF), which had swept Tamil areas of the north and east, became the major opposition party in parliament with 16 seats and the SLFP representation in the house fell to a bare eight seats.

Jayewardene's sweeping victory enabled him to fulfill the UNP's campaign pledge to introduce a French-style presidential system of government. Forsaking the now-eclipsed office of prime minister, he set out as president to use his new powers to open the economy and to make a new effort to reconcile with the increasingly disaffected Tamil minority. In the local elections and parliamentary by-elections of May 1983, the UNP strengthened its commanding position by gaining control of a majority of municipal and urban councils and winning 14 of 18 parliamentary seats contested.

The CCP and two other leftist groups, the People's Liberation Front and the New Socialist Party, were banned in 1983 on charges of playing a role in the ethnic riots which swept the island in July; leaders of the Communist Party were subsequently arrested. In August 1983, TULF members of parliament, after several fruitless years of negotiations with Jayewardene aimed at devolving power to local levels, were confronted with a constitutional amendment aimed at them by the UNP's two-thirds majority that required all MP's to pledge their allegiance to a unitary state. They abandoned parliament, and by now most have been killed, as the leadership of the Tamil movement fell into the hands of those advocating violence and complete independence as the only sure ways to protect Tamil ethnicity. The TULF was decimated in parliamentary elections in February 1989, which saw the emergence of several small Tamil parties with reputed ties to the rebels.

In presidential elections held in December 1988, Prime Minister Premadasa beat the SLFP's Sirimavo Bandaranaike in a close race marred by ethnic violence. He was sworn in as Jayewardene's successor on 2 January 1989. In February, he led the UNP to a strong victory in parliamentary polling, capturing 125 of the 225 seats under a new proportional voting system; he then named Dingiri Wijetunga as prime minister. These elections also saw the debut of the United Socialist Alliance (USA), a new political grouping set up in 1987 and composed of the SLFP's former coalition partners on the far left, including the CCP, the LSSP, and the Sri Lanka Mahajana Party (SLMP); the USA took 4 seats, while the SLFP won 67.

In the summer of 1991, Premadasa beat back a sudden challenge to his position by leading members of his party in parliament, suspending the parliament for a month to delay debate on a motion they had filed to impeach him for abuse of his authority. But in a rising tide of violence and assassinations of governmental officials across the island, President Premadasa himself became a victim of a Tamil bomber on 1 May 1993. The Parliament unanimously elected Prime Minister Wijetunga as his successor on 7 May 1993.

A "snap" election called six months early by President Wijetunga as part of his campaign for re-election himself in November 1994 backfired on 16 August 1994 when the voters rejected the UNP by a small margin. In its place, they elected to office a seven-party, leftist coalition—now dubbed the People's Alliance (PA)—led by the SLFP's Sirimavo Bandaranaike and Chandrika Bandaranaike Kumaratunga—mother and daughter, 80 and 49 years of age, respectively. More vigorous but less experienced, the younger Kumaratunga promptly became prime minister.

The results of the elections, by seats won, were as follows: People's Alliance, 105; United National Party, 94; Eelam People's Democratic Party, 9; Sri Lanka Muslim Congress, 7; Tamil United Liberation Front, 5; People's Liberation Organization of Tamil Eelam, 3; Sri Lankan Progressive Front, 1; and the Upcountry People's Front, 1.

Kumaratunga won election on the promise of ending the civil war. Her offers of limited regional autonomy for Tamils within the Sri Lankan state were initially turned down by the LTTE leader, Velupillai Prabhakaran (most of the moderate Tamil leaders have been assassinated). Her attempts at a military solution were

also unsuccessful until a cease-fire and peace talks emerged in 2002. Citing parliament's rejection of her proposals for strengthening the prime minister's powers and for granting regional autonomy to the Tamils, Kumaratunga called for presidential elections ahead of schedule in December 1999. The race between the president and her UNP rival, Ranil Wickremasinghe, was close. However, three days before polling, Kumaratunga was injured in an assassination attempt, bringing out a sympathy vote. She was returned to office with 51.1% of the votes compared to her opponent's 42.7%. In November 1994, presidential elections were held. UNP leader Gamini Dissanayake fell victim to the island's endemic violence and his widow Srimala Dissanayake was appointed to run against the younger Kumaratunga. While the latter's political party won only a slim plurality and had to govern by coalition, in the presidential race she won a commanding majority (63%–36%) and, upon becoming president, appointed her mother prime minister.

In the parliamentary elections held 7 December 2001, Wickremasinghe's United National Party took 109 seats, and united with the Sri Lanka Muslim Congress's (SLMC) 5 seats to take control of parliament. Kumaratunga's People's Alliance coalition took 77 seats, and the People's United Liberation Front, uniting with the PA, took 16 seats. The Tamil United Liberation Front took 15 seats, the Eelam People's Democratic party took 2 seats, and the Democratic People's Liberation Front secured 1 seat.

## 15 LOCAL GOVERNMENT

Although Sri Lanka is a unitary state, it is nonetheless divided into nine provinces (out of which 2 have been later amalgamated for the purpose of establishing one provincial council) whose borders follow historic and traditional lines. The key administrative unit has traditionally been the district, into which the provinces are further divided. There are a total of 25 districts under the control of senior civil servants who are district officers responsible to the government in Colombo for ensuring justice, maintaining law and order, collecting revenues, and allocating development funds. There is, in addition a system of district ministers that was created after 1978 to assist the district officers and to provide a political input at the district level. Appointed by the president, district ministers are members of parliament but from a constituency other than one in the district for whom they bear district responsibility. Not full members of the cabinet, they nonetheless sit with the president in the Council of Ministers and otherwise enjoy ministerial perquisites.

Districts are also served in rural areas by popularly elected district councils which have limited powers but which assist the district officer and the district minister in assessing public views and mood and in setting development priorities. Municipal councils, urban councils, and Pradeshiya Sabhas perform a similar function in urban and rural areas. Their term of office is four years. Currently there are 14 municipal councils, 37 urban councils and 258 Pradeshiya Sabhas. In general, municipal councils are established for cities and large towns, urban councils for less urbanized areas and Pradeshiya Sabhas for rural areas.

In conformity with Indo-Lankan agreement in 1987 to devolve power to the provinces, the parliament voted to establish, at the provincial level, elected councils headed by chief ministers. In presence of the IPKF in 1988, elections were held to these provincial councils (PC), and the UNP took control of 7 in non-Tamil areas; the ERPLF, a new, anti-LTTE Tamil party supported at the time by the IPKF, took control of the two in the Tamil north and east. While unsettled conditions have slowed progress on devolution, elections to the seven PCs in non-Tamil areas in 1993 reportedly produced more mixed results, with gains and losses for all parties, including the UNP, the SLFP, and the ERPLF. Although the PA was successful in gaining control of provincial councils in elections held in 1997 and 1999, its share of the

popular vote show it running neck and neck with the opposition. For example, in elections held in April 1999 in non-Tamil areas, the PA gained control of all the provincial councils contested, but only achieved 43% of the votes compared to the UNP's 41%. However, district elections for Colombo held on 10 October 2000 saw the UNP take 43.45% of the vote to the People's Alliance's 38.86%. In local elections held in March 2002, the UNP won a sweeping victory, taking all but 5 of the 222 councils that voted.

## 16 JUDICIAL SYSTEM

Civil law is based on Roman-Dutch law introduced during the period of Dutch rule, but in the area around Kandy, an indigenous type of law prevails. Criminal law is British. Tamils and Muslims have their own laws governing property disposition and certain observances. Sri Lanka's judicial system includes district courts, magistrates' courts, courts of request (restricted to civil cases), and rural courts.

In criminal cases, the Supreme Court (composed of a chief justice and from 6 to 10 associate justices, all appointed by the president) has appellate jurisdiction. Under the 1978 constitution, the other high-level courts are the Court of Appeal, High Court, and courts of first instance. The president also appoints judges to the Court of Appeals and the High Court. A judicial service commission appoints transfers and dismisses lower court judges. Sinhala is the official language of the courts.

The constitution declares the independence of the judiciary and the courts appear to be independent in practice.

Defendants are guaranteed a number of procedural due process protections but trials under the Emergency Regulations (ER) and the Prevention of Terrorism Act (PTA) lack significant procedural safeguards.

## 17 ARMED FORCES

In 2002 the armed forces of Sri Lanka totaled 157,900 active personnel with 5,500 reservists. The army numbered 118,000 including 2,960 women. Equipment included 62 main battle tanks. The navy had personnel numbering 20,600, manning five bases with 61 patrol and coastal combatants. The air force of 19,300 operated 22 combat aircraft and 24 armed helicopters. The paramilitary consisted of around 88,600 personnel in a police force, national guard, and home guard. The opposition forces of the Liberation Tigers of Tamil Eelam numbered around 7,000 armed troops. In 1998 defense expenditures amounted to \$719 million or 4.2% of GDP.

## 18 INTERNATIONAL COOPERATION

The government of Sri Lanka is opposed to all military defense alliances but actively participates in other forms of international cooperation. On 14 December 1955, Ceylon was admitted to membership in the UN. Sri Lanka is a member of ESCAP and all the nonregional specialized agencies, the Asian Development Bank, the Commonwealth of Nations, the Colombo Plan, the WTO, and G-77, among other intergovernmental organizations. It also signed the Law of the Sea treaty. Sri Lanka is a member of the South Asian Association for Regional Cooperation (SAARC), which promotes economic and social development for its South Asian member states.

## 19 ECONOMY

Since 1977, the Sri Lankan economy, once dominated by agricultural, has experienced strong growth in its industrial and services sectors. While annual growth in agricultural output averaged only 2% between 1988 and 1998, industry and services expanded at annual rates of 7.1% and 5.4%, respectively. From 1988 to 2000, agriculture's share of GDP declined from 26.3% to 21%, although employing still about 35% of the labor force.

Overall, real GDP has grown at an average annual rate of 5.2% 1991 to 2000.

Economic expansion has been led by manufactures, particularly textiles and apparel, which is also the leading net earner of foreign exchange. In 1998, the manufacturing sector grew 6.3%, only 4.4% in 1999, and then surged ahead 9.2% in 2000. The textile sector grew 16.25% in 2000 (up from 7.5% in 1999), which in turn contributed to a 20% growth in exports. Services, accounting from 54% of GDP in 2000, grew by 4.7% in 1999 and 6.9% in 2000, led by tourism, the second-largest foreign exchange earner. Overall Sri Lanka experienced strong 6% growth in 2000, compared with 4.7% in 1998 and 4.3% in 1999. However, imports of goods and services increased even faster than exports, and the current account deficit jumped to 6.6% of GDP from 3.7% in 1999. The government responded with several devaluations of the rupee, and then on 23 January 2001 switched to a flexible exchange rate system. Inflation, which had been held to 4% in 1999 as measured by the Colombo Consumer Price Index (CPI), rose to nearly 11% in 2001. In April 2001 the government entered into a 14-month stand-by arrangement with the IMF to stabilize the economy.

In the meantime, external and internal events combined to produce a decline in real GDP of 1.5% in 2001, the first annual contraction ever recorded for Sri Lanka's economy. The global economic slowdown from the beginning of 2001 reduced export demand, which fell nearly 13%; the attack on Colombo's international airport in July by the Liberation Tigers of Tamil Eelam (LTTE) sent tourism plummeting with war risk surcharges applied to aircraft and shipping; a severe drought reduced agricultural and hydroelectric output; and the 11 September 2001 terrorist attacks on the United States added the effects of a sharp world-wide reduction in foreign direct investment to contractions in travel and spending. Domestic demand was also sharply contracted, and, aided by a temporary 40% import surcharge aimed at maintaining foreign exchange reserves by discouraging imports, the current account deficit fell to 1.9% of GNP, an ironic note of improvement. Unemployment swelled, particularly in the textile and tourist industries, as did the government's budget deficit, which reached 10.9% of GDP, reflecting in part political resistance to the austerity measures prescribed under the IMF stand-by arrangement. In December 2001 the IMF suspended the arrangement.

In 2002 Sri Lanka experienced a return to real growth of between 1% to 2% due in large part to the Norwegian-brokered cease-fire agreement reached in February between the government and the LTTE, ending, it was hoped, 19 years of violent insurgency and reprisals. Revived consumer and business confidence was reflected in increases in domestic demand and tourism. The drought also eased, bringing down agricultural prices, and, as of May 2002, ending power shortages. The current account deficit remained unchanged at 1.9% of GDP as continued weak demand for commodity exports was compensated for by increased tourist receipts and remittances from abroad. The fiscal deficit fell to 8.9%, an improvement but above the government's 8.5% target. Forecasts are for about 5% growth in 2003, provided the peace process continues to move forward, structural reforms are implemented and fiscal targets are achieved.

From 1973 to 1977, the channeling of resources into social welfare programs, combined with high oil prices and frequent droughts, helped depress the economy and business growth. In 1977, the new UNP government lifted most price controls, shifted government spending into capital investment, liberalized foreign exchange and import restrictions, and eliminated some government monopolies to permit more business competition. These policies help raise the average annual increase in real GDP to 6% 1978 to 1981, compared to 3% 1971 to 1977. However, coinciding with the second oil shock 1978-79, a high level of

inflation accompanied the increased growth. From 1980 to 1985, though exports continued to grow at an average 20% a year, real GDP growth slowed to an average 4.7% a year. In 1983, country-wide riots that left nearly 400 dead and 79,000 homeless signaled the beginning of what proved to be 19 years of separatist violence by the Tamil Tigers. In the latter half of the 1980s, the national economy was faced with grave challenges: escalating defense expenditures to combat the insurgency; recurrent drought; depressed world prices for major export crops, tea and coconut-based goods; and stagnant government revenues. These conditions produced a resurgence of inflation, increasing unemployment, critical current account deficits and stagnating economic growth. By 1989, GDP growth had fallen to 2% (down from 2.8% in 1988) while annual export growth fell to 5% and the official unemployment rate reached 18%. Worsening economic indicators spurred renewed stabilization and structural adjustment efforts by the government with emphases on tightened monetary and fiscal policies, and privatization to stimulate investment.

In the 1990s average economic growth rebounded to above 5% led, as noted, by expansions in manufactures and services. As was true for much of the rest of the world strong growth in 2000 foundered in 2001, with only a moderate recovery in 2002. The IMF currently projects real GDP growth for Sri Lanka at 5.5% in 2003 with inflation reduced to 7% from 11.3% in 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Sri Lanka's gross domestic product (GDP) was estimated at \$62.7 billion. The per capita GDP was estimated at \$3,250. The annual growth rate of GDP was estimated at -1%. The average inflation rate in 2001 was 14.2%. 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 21% of GDP, industry 27%, and services 52%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1,142 million or about \$60 per capita and accounted for approximately 7.1% of GDP. Worker remittances in 2001 totaled \$1,124 million. Foreign aid receipts amounted to about \$18 per capita and accounted for approximately 2% of the gross national income (GNI).

Approximately 43% of household consumption was spent on food, 7% on fuel, 4% on health care, and 8% on education. The richest 10% of the population accounted for approximately 28.0% of household consumption and the poorest 10% approximately 3.5%. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that in 1997 about 22% of the population had incomes below the poverty line.

## 21 LABOR

In 1998, the economically active population totaled 6,693,000. The agricultural sector accounted for 35%; 22% worked in industry, and 39% were sales and service workers. Unemployment in 2001 was officially estimated at 7.7%.

The country has a strong trade union tradition, and the constitutional right to form unions is respected by the government. Approximately 25% of the nationwide labor force are union members, with over 70% of agricultural workers unionized as well. The largest trade union federations are the Ceylon Workers' Congress, the National Workers' Union, the Democratic Workers' Congress, and the Ceylon Federation of Labor. With the exception of essential workers, employees have the right to strike. It is illegal for an employer to discriminate

against those who engage in union activity. Collective bargaining is widely practiced.

Thousands of Sri Lankan workers are employed abroad, mostly in Saudi Arabia, Kuwait, the United Arab Emirates, Singapore, Hong Kong, Bahrain, Qatar, and Oman; many of them housemaids and nannies valued for their literacy and English language skills.

There is no national minimum wage, but there are minimum wages set in individual sectors and industries. The average such wage was \$33.52 per month in industry, commerce, and the service sector, and \$1.42 per day in agriculture as of 2001. It was estimated that 16,500 children younger than the minimum legal age of 14 were employed full-time, with many thousands more employed in domestic service. The legal workweek is set at 45 hours.

## 22 AGRICULTURE

Agriculture, the mainstay of the economy, employs about 35% of the working population and contributes 21% to GDP. About 75% of those working in agriculture are engaged in the production of tea, rubber, and coconuts, the three crops that comprise nearly 60% of Sri Lanka's agricultural land. Tea production in 1999 was 280,000 tons; plantings were 190,000 hectares (469,000 acres). Rubber production was 96,000 tons, and coconut production totaled 1,850,000 tons.

Rice is the major staple crop, produced over much of the country. The major growing districts are Kurungala in the northwestern province, Ampara in the eastern province, Polonnaruwa and Anuradhapura in the north central province, and the Mahaweli area; together these areas account for 55% of production. The maha rice season crop (63% of production) is planted in the fall and harvested in the spring, while the yala rice crop (37%) is planted in the summer and harvested in the fall. Production of rice reached 2.8 million tons in 2000. Lesser crops include sugar, pepper, cinnamon, chilies, sesame, cardamom, tobacco, cashew nuts, betel leaves, coffee, and cocoa.

Under the Land Reform Law of 1972, all property holdings exceeding 20 hectares (50 acres), except for property controlled by publicly owned companies, were vested in the Land Reform Commission for redistribution; a total of 226,373 hectares (559,377 acres) were redistributed, including one-fifth of the land under tea. Under the Land Reform Amendment Bill of 11 October 1975, all publicly owned estates (including the major British-owned tea and rubber plantations) were nationalized. The Janatha Estate Development Boards and the Sri Lanka Plantation Corporations account for 60% of total tea production and 30% of the total area under rubber cultivation.

## 23 ANIMAL HUSBANDRY

Sri Lanka's livestock population is comparatively small; in 2001 there were 1,565,000 head of cattle, 661,000 water buffalo, 493,000 goats, 68,000 hogs, 12,000 sheep, and 11 million chickens. Animals are not of high quality, partly as a consequence of religious considerations and primitive agricultural conditions. The natural pasturage lacks both nutritional value and palatability, and prospects for new pastures are not promising. In 2001, milk output was 224,000 tons and 53,000 tons of eggs were produced.

## 24 FISHING

Fishing produces less than the country's needs and yields a meager income to fishermen, most of whom use primitive boats and gear in the shallow waters surrounding the island. In 2000, the total fish catch was estimated at 300,316 tons, up from 165,397 tons in 1990. Exports of fish products were valued at nearly \$134.5 million in 2000.

## 25 FORESTRY

About 30% of the total land area consists of forests. In 2000, 6,543,000 cu m (231 million cu ft) of roundwood were cut. Forestry products included 5,000 cu m (176,500 cu ft) of sawn timber and 5,907,000 cu m (208.5 million cu ft) of firewood for domestic use.

## 26 MINING

Sri Lanka's major mineral commodities were graphite and colored gemstones. However, 18 years of civil war, prolonged drought, high oil prices, and an electricity crisis have crippled its economy—GDP declined by 1.3% in 2001, its lowest level in a decade. Graphite production, which was controlled by the government, totaled 6,585 tons in 2001, up from 5,902 in 2000. The island's gem industry was world famous. In the Ratnapura district, there were considerable deposits of sapphire, star sapphire, ruby, star ruby, cats eye, chrysoberyl, beryl, topaz, spinel, garnet, zircon, tourmaline, quartz, and moonstone. A lapidary industry was established for the international marketing of cut and polished precious and semiprecious gemstones. No output figures were available for 2001, but in 2000, 380,500 carats of star sapphire, 173,700 carats of sapphire, and 6.5 million carats of other precious and semiprecious gemstones other than diamond were produced, half that of 1999. Large quantities of kaolin and apatite have been found, and there were large surface deposits of quartz sand—kaolin and quartz sand were mined. Limestone dating from the Miocene era was quarried from the Jaffna peninsula and used in the manufacture of cement. In the dry-zone coastal areas, salt was manufactured by solar evaporation of seawater. In addition, Sri Lanka produced clays (brick, tile, and for cement production), feldspar, and phosphate rock, and presumably produced varieties of stone and sand and gravel. Cement production and petroleum refining were among the country's leading industries in 2002, and diamonds ranked third among export commodities; petroleum products ranked fifth. The beach sands contained large quantities of ilmenite, rutile, monazite, and zircon, although none was produced in 1999–2001; in 1998, 84,118 tons of ilmenite concentrate was produced, 1,930 of rutile, and 8,814 of zircon. There were plans to revive mineral sands operations, including of garnet sands discovered along the southern coastline. Although no rare earth metals were produced in 2000–2001, the cerium, yttrium, zirconium, niobium, tantalum, thorium, and uranium groups have been found, and thorianite appeared to be widely distributed.

## 27 ENERGY AND POWER

The Sri Lanka Electricity Board, a state enterprise, supervises the generation and transmission of electric power in Sri Lanka. Installed capacity in 2001 was 1,607,000 kW, of which almost three-fourths was hydroelectric. Power generation in 2000 totaled 6.6 billion kWh, of which 31.9% was from fossil fuels and 68.1% from hydropower. Consumption of electricity in 2000 was 201.2 billion kWh. The country's heavy dependence on hydropower creates shortfalls in times of drought, so the government plans to diversify the power sector, adding 2,500 MW of new capacity by 2012.

The Mahaweli hydroelectric project, originally begun in 1970, included the construction of four reservoirs and hydroelectric plants at Victoria, Kotmale, Randenigala, and Maduru Oya, all of which are now in place. The four hydroelectric stations have a combined capacity of 580,000 kW (with the Victoria station contributing 210,000 kW). Sri Lanka meets all of its crude oil requirements with imports. As of 2002 it had a refinery capacity of 50,000 barrels per day. Oil consumption doubled in the 1990s. Sri Lanka does not produce or consume natural gas. It has limited coal reserves and consumes a minimal amount of coal.

## 28 INDUSTRY

Since 1977, the government's market-oriented economic policies have encouraged industrial growth in the private sector, particularly in textiles, food and beverages, wood products, rubber and plastics, and other consumer goods. While most small- and medium-sized enterprises are now privately owned, state ownership continues to predominate in basic industries such as oil refining, and electric power generation. In the period 1990 to 2001, 38 manufacturing companies were privatized including Lanka Lubricants (sold to Caltex in 1994), Colombo (bottled) Gas Company (sold to Shell Oil in 1995), Ceylon Steel Corporation (sold to Hanjung of Korea in 1996), and Sri Lanka's only flour mill (built on a build-operate-transfer (BOT) basis in 1977 by Prima Ltd. of Singapore and converted to a buy-own-operate (BOO) arrangement in 2001 with a further investment from Prima of \$65 million) In 2001, industry accounted for about 26.5% of GDP, of which manufacturing were 15.8%; construction, 7.5%; mining, 1.9%; and electrical power and water, 1.2%.

Textiles and apparel is the largest industrial sector, accounting for 40% of manufacturing output, and, with 350,000 textile workers, the largest industrial employer. There are about 800 textile factories, the largest 100 accounting for about half of production. The sector is the leading net earner of foreign exchange, surged ahead 16.2% in 2000 after growing 7.5% but then declined 8.6% in 2001 as export demand fell. Apparel, which accounts for about 35% of industrial output and 34% of manufacturing employment, makes up 50% of total exports. Export earnings from the garment industry dropped 15% in 2001 as opposed to a 23% increase in 2000. The United States is Sri Lanka's main apparel market, buying about 64%, helped by quota allotments under which 70% of apparel exports to the United States fall. The EU lifted quota restriction for Sri Lanka in 2001. In 2005, when quotas under the Multi-Fiber Agreement (MFA) are due to be phased out, Sri Lanka's garment industry will face the challenge of a more competitive world market, although only the largest operations appear presently to have the technological and marketing capacities to effectively compete.

Food, beverages and tobacco, the second-largest manufacturing sector, accounting for 22% of industrial output, depends more on the domestic market and registered growth of 3.1% in 2001 despite the overall downturn after a modeler 6% rise in 2000. The third largest industrial sector—chemicals, petroleum and rubber products, accounting for 19% of industrial output—has been more volatile, growing 13% in 2000 and declining 5.6% in 2001. Sri Lanka's only oil refinery is a state-owned facility with a 68,000 barrels per day capacity. The non-metallic mineral sector, which had grown 2.2% in 2000, declined in 2001, but two other non-traditional sectors—smaller fabricated metal products and basic metal products—grew by about 3% in 2001 after increases in 2000 of 4.5% and 5.6%, respectively. Paper industries also grew about 3% in 2001. The outlook for manufactures in Sri Lanka depends largely on the outlook for exports, particularly to the United States. In the first quarter of 2002, exports were down 16%. A more positive development was the restoration of a reliable power supply in May 2002 with the end of drought conditions.

The government's industrial policy includes encouraging investment in industries in which it believes Sri Lanka has a comparative advantage. The Board of Investment (BOI) offers various incentives for investment in five industry segments: electronics and components for electronic assembling, industrial and machine tools (a new emphasis), ceramics and glassware, rubber-based industries, and light and heavy engineering. Another key policy element is deregulation, and in 2001 a committed on deregulation was formed to study regulatory impediments to Sri Lanka's industrial development.

## 29 SCIENCE AND TECHNOLOGY

With the launching in 1978 of a free-trade zone north of Colombo, Sri Lanka was able to establish such high-technology enterprises as the manufacture of integrated circuits and of control and relay panels. In 1982, two US electronics manufacturers contracted to build semiconductor assembly plants in the zone. The textile industry, located there, ranked nineteenth in 1985 as a supplier to the United States. In 1987–97, 47 technicians and 191 scientists and engineers per 1 million population were engaged in research and development.

The Sri Lanka Association for the Advancement of Science, founded in 1960, is located in Colombo. Also in the city are the Ceylon Institute of Scientific and Industrial Research, founded in 1955; Natural Resources, Energy, and Science Authority of Sri Lanka (founded originally in 1968 as the National Science Council); Colombo Observatory, founded in 1907; and the National Academy of Sciences of Sri Lanka, founded in 1976. The country also has research institutes devoted to coconuts, horticulture, medicine, rice, rubber, tea, and veterinary science. The Royal Botanic Gardens was founded in 1821 at Peradeniya, and a natural history museum was founded at Colombo in 1985. Sri Lanka has 13 universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 34% of college and university enrollments.

## 30 DOMESTIC TRADE

Most retail stores are small and unspecialized. Marketing and distribution are dominated by the strong and well-developed cooperative movement, which the government assists with loans, price guarantees, and supervision. Although government monopolies played a major role in the wholesale distribution of imported goods, as well as many domestic commodities during the 1970s and 1980s, liberalization policies since the late 1980s decreased direct state involvement in domestic trade. The government still controls much of the food sector as a matter of national security.

Colombo is the nation's commercial center with a large business section adjoining the traditional bazaar, a large area of small retail shops and stalls. Kandy is a market center for locally produced tea, rubber, rice, cacao, and handicrafts. Galle is an agricultural market center and Negombo is a major market center for fishing and handicrafts. Jaffna hosts a number of local markets for fishing, agriculture, and industries including textiles, tobacco processing, and chemical and cement production. The city also serves as a trading place for elephants, peppers, and other commodities. There are several advertising firms in Colombo, some of which have connections abroad. Products are advertised in newspapers, trade journals, motion picture theaters, and on commercial radio.

The usual business hours are from 8:30 AM to 1 PM and 2 to 5 PM, Monday through Friday. Banks open from 9 AM to 1 PM on Monday and to 1:30 PM, Tuesday through Friday.

## 31 FOREIGN TRADE

Clothing and apparel is now the country's leading foreign exchange earner, accounting for over half of export receipts. Sri Lanka's traditional primary exports have been tea, natural rubber, and coconut products, especially desiccated coconut and coconut oil. However, the share of total export earnings accounted for by these three commodities declined steadily from 87% in 1972 to 48% in 1985 and 16% in 1999; tea decreased from its 58% share of total export value in 1972 to a low of 8.2% in 1995. Declining export shares for the country's agriculturally based exports are due to adverse weather conditions in recent years as well as rapid growth in the export earnings of industrial products.



In 1999 garments accounted for 51% of Sri Lankan exports. Other commodity exports are tea (14%), diamonds and other precious gems (2.9%), and coconut products (1.7%). Sri Lanka produces a large portion of the world's tea exports (25%).

In 1999 Sri Lanka's imports were distributed among the following categories:

Consumer goods	7.9%
Food	13.4%
Fuels	5.8%
Industrial supplies	51.0%
Machinery	13.2%
Transportation	8.6%
Other	0.1%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	2,193	255	1,938
United Kingdom	737	311	426
Germany	230	157	73
Japan	230	646	-416
Belgium	156	161	-5
China (inc. Hong Kong)	69	767	-698
Singapore	61	496	-435
India	58	600	-542
Iran	33	203	-170
Korea	31	396	-365

### 32 BALANCE OF PAYMENTS

Sri Lanka's balance-of-payments position is highly sensitive to price changes in the world market because it depends in large part upon a few export crops to pay for its imports. Since 1983, sharply rising defense expenditures, a decline in tourism caused by continuing civil violence, and slumping world tea and coconut prices combined to exert pressure on the balance of payments. The deficit has also been partially offset by substantial foreign exchange earnings from tourism and from remittances by Sri Lankans working abroad. The current account deficit has declined each year since 1994 when it stood at \$860 million. Export growth in 1999, however, slowed considerably to 2% and earnings from tea exports had declined 40% due to the impact of the Russian economic crises in 1998.

In 2000, exports increased by close to 20% to \$5.5 billion, and exports of garments and tea did very well. Other exports, such as food, rubber products, machinery, and processed diamond exports, also performed well that year. Sri Lanka floated the rupee in 2001, and the central bank began employing currency controls. Since then, the controls were relaxed. In addition, the government imposed an import duty surcharge to stem the flow of imports. The country's external debt stood at \$9.9 billion at the end of 2000, equal to 60% of GDP.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Sri Lanka's exports was \$4.9 billion while imports totaled \$6 billion resulting in a trade deficit of \$1.1 billion.

The International Monetary Fund (IMF) reports that in 2001 Sri Lanka had exports of goods totaling \$4.82 billion and imports totaling \$5.38 billion. The services credit totaled \$1.37 billion and debit \$1.76 billion. The following table summarizes Sri Lanka's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-265
Balance on goods	-554
Balance on services	-390
Balance on income	-281
Current transfers	959
<b>Capital Account</b>	49
<b>Financial Account</b>	380
Direct investment abroad	...
Direct investment in Sri Lanka	172
Portfolio investment assets	24
Portfolio investment liabilities	-35
Other investment assets	13
Other investment liabilities	207
<b>Net Errors and Omissions</b>	165
<b>Reserves and Related Items</b>	-329

### 33 BANKING AND SECURITIES

The Central Bank of Sri Lanka, established in 1949, began operations in 1950 with a capital of R15 million contributed by the government. The sole bank of issue, it administers and regulates the country's monetary and banking systems.

Although Sri Lanka has a fairly well diversified banking system, the two largest banks, the Bank of Ceylon and Peoples Bank, are state owned and operate inefficiently. They are considered to be incompetent, primarily owing to excessive government influence in their lending operations and overstaffing. The World Bank has identified the dominance of these two banks as a major constraint on the development of the financial sector. The simple solution, privatization, is not an option given the current political climate. Together, they accounted for two-thirds of commercial bank deposits in 1999.

In addition to the central bank and the two state owned banks, there are 9 private domestic commercial banks, 14 foreign banks, a national savings bank, 6 regional rural development banks, 2 large development finance institutions, a mortgage bank, and 13 merchant banks. US banks operating in Sri Lanka include Citibank and American Express. 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 money market rate, the rate at which financial institutions lend to one another in the short term, was 21.24%.

The Colombo's Brokers Association operates an organized stock market, whose transactions have grown significantly since the 1984 tea export boom increased liquidity in the economy. The Colombo Stock Exchange was established by the Association of Stock Brokers in 1987 and has established itself as one of the most efficient in the region. In 2001, there were 238 companies listed on the exchange with a combined market capitalization of \$1.3 billion. The turnover ratio was 13.2%. The exchange was adversely affected by the pull out of foreign investors from the region after the nuclear tests in India and Pakistan. The market was also affected by the Asian economic crisis and the Russian financial crisis, suffering a 14% decline in 1998 and a 26% decline in 2000. The CSE Milanka was up 47.6% in 2001, at 1,031.

### 34 INSURANCE

Insurance was almost wholly a foreign enterprise until 1 January 1962, when the life insurance business was nationalized. The state-owned Insurance Corp. of Sri Lanka now has a monopoly on life insurance and all other insurance. In 1997, there were six insurance companies (two of which were state-owned), the National Savings Bank, and two pension funds. Foreign insurers operate in the market in reinsurance and share holding. In 2001, 83 million dollars worth of life insurance premiums was written.

### 35 PUBLIC FINANCE

Fiscal targets are of particular concern because the government's chronic high fiscal deficits, which averaged a little over 9% of GDP 1997 to 2002, more than three times the ratio considered prudent, have led to problematic national debt. Total government debt as a percent of GDP rose from 85.8% in 1997 to 113.6% in 2002. The main causes of the persistent high budget overruns are an associated combination of welfare and pension expenditures, weak tax administration, and losses by the Ceylon Electricity Board (CEB). In September 2002, the government enacted a Welfare Benefit Law aimed at clarifying welfare eligibility and establishing penalties to reduce politicization and mistargeting. In January 2003, the government also passed the Fiscal Management Responsibility Act (FMRA) setting medium-term deficit targets and mandating "pre-election budget reports" to discourage pre-election handouts, as well as a new Board of Investment (BOI) Law eliminating the BOI's power to grant extra-legal incentives. These measures helped secure IMF approval on 8 April 2003 of a three-year program under the combined Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF and EFF), with a total available credit line of SDR413.4 (\$567 million). The PRGF-EFF program is in direct support of the government's program for 2003–2006 aimed at poverty reduction through private sector growth. Historically, Sri Lanka, though low on per capita income, has been relatively high on other social welfare indicators such as adult literacy (90%), school enrollment, infant mortality and life expectancy (72 years). The challenge will be to maintain welfare and educational standards while bringing the budget deficit under control.

The US Central Intelligence Agency (CIA) estimates that in 2001 Sri Lanka's central government took in revenues of approximately \$2.8 billion and had expenditures of \$4.1 billion. Overall, the government registered a deficit of approximately \$1.3 billion. External debt totaled \$9.9 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%	2,800
Tax revenue	86.4%	2,419
Non-tax revenue	11.3%	315
Capital revenue	<0.1%	1
Grants	2.3%	65
EXPENDITURES	100.0%	4,100
General public services	5.5%	228
Defense	14.7%	604
Public order and safety	3.8%	157
Education	7.7%	315
Health	5.1%	209
Social security	12.3%	502
Housing and community amenities	2.8%	116
Economic affairs and services	15.2%	621
Other expenditures	7.2%	297
Interest payments	25.6%	1,051

### 36 TAXATION

A new value-added tax (VAT) was introduced 1 August 2002 after two delays designed to replace both the VAT-like goods and services tax (GST), in effect since April 1998 and abolished 1 June 2002, as well as the National Security Levy. The new VAT has three rates: a standard 20% rate (up from the GST 12.5% rate) for most goods and services supplied in or imported into Sri Lanka; a 10% rate (up from 0%) on essentials like food, petroleum, public transport services, and health care; and a 0%

rate on export-related services and on services consumed outside Sri Lanka and paid for with foreign exchange credited to a bank in Sri Lanka. In this low income country, the VAT is the most important source of government revenue. In 2003, the government has also introduced a new debits tax of 0.1% to be applied to all current account debits, a reflection of the pressure to maintain adequate foreign exchange reserves. Withdrawals up to about \$200 a month are exempt from the debits tax. Exempt from the debits tax are the accounts of the government and international organizations, accounts at foreign currency banking units (operated by all commercial banks) and accounts maintained for stock exchange transactions, the share investment external rupee accounts (SIERAs) through which foreign purchases on Colombo Stock Exchange are directed. Individual income taxes are graduated, with rates of 0% up to about \$2,500; 10% for income between \$2,500 and \$4,300; 20% for income between \$4,300 and \$6,000; and 30% on the balance. Noncitizens employed in enterprises licensed by the Board of Investment (BOI) are taxed at a flat concessional rate of 15%. There are two corporate income tax rates: a 20% rate for companies with taxable income below about \$51,500 (i.e., R5 million), and a 30% rate for those with taxable income above this limit (down from a previous top rate of 35%). Extensive tax holidays and concessional rates are offered to foreign investors and joint ventures that meet specified performances requirements. Income from unit trust funds in specified areas are taxed at a preferential 10% rate, while other unit trusts and mutual funds are taxed at 20%. Dividends are taxed at 10% and capital gains taxes have been abolished. As of 1 January 2003 the tax free limit on interest income was raised from R73,000 to R108,000 (about \$1,100).

Other taxes include excise taxes on over 250 items, and local property taxes.

### 37 CUSTOMS AND DUTIES

Sri Lanka has a two-band import tariff schedule based on the Harmonized System of Classification. In 2002, the standard import tariff rates were 10% or 25%, although a few items carried tariffs of 5% or 35%. The tariff on automobiles is 25%. All imports of textile materials, yarn, and all related intermediate and capital goods required for the garment export industry are free of import duty as are a number of products critical to economic development like computers, medical and dental equipment, telecommunications equipment, and agricultural seeds and machinery. Within Sri Lanka's free trade zone, imports of industrial and construction equipment, base metals, and coal and coke are duty-free. Export duties are levied on tea, rubber, and coconut products.

### 38 FOREIGN INVESTMENT

The great agricultural enterprises, insurance companies, and banks were developed originally by foreign capital. In 1959, foreigners owned almost 36% of the country's rubber acreage and 6% of the tea plantations; 80% of the insurance business was written by foreign companies, and the banking business was largely a monopoly of British and Indian firms. After 1961, when nationalization became widespread, private investors were reluctant to place new funds in Sri Lanka. Consequently, during the 1960s, the country had to depend almost entirely on loans and short-term credits. During the 1970–77 period, foreign companies, principally Japanese, were more willing to collaborate with public sector enterprises.

With the change of direction in the government's economic policy since 1977, foreign investment has flowed more freely into the private sector. The Greater Colombo Economic Commission (GCEC)—replaced in 1992 with the current Board of Investment (BOI)—and the Foreign Investment Advisory Committee promoted outside investment in export-oriented and high-

technology industries, largely through joint ventures in which majority equity was held by Sri Lankan companies. Exceptions to this policy were the large luxury hotels and construction projects for the Mahaweli development program, in which foreign partners hold majority shares. The GCEC's Investment Promotion Zone, the country's first free trade zone (established in 1978), had attracted 116 foreign companies by 1985; 96 firms operating in the zone, chiefly clothing manufacturers, employed 35,786 workers and made capital investments with a total value of R286 million during that year. As of 2003, Sri Lanka has six free trade zones, also called export processing zones, administered by the BOI, plus three industrial parks that contain both export-oriented and non-export-oriented enterprises.

The main law governing foreign investment is Law No. 4 of 1978 as amended in 1980, 1983 and 1992, after which it has been generally known as the BOI Act. Under the BOI Act, foreign companies are separated into two categories: those that falling under Section 16 are subject to the "normal" laws, and those falling under Section 17 that qualify for special BOI-specified incentives. In general, incentives are targeted at investments that are export-oriented, infuse substantial capital into the economy and/or transfer advanced technology. On 1 April 2002 the BOI announced a new investment incentive structure for Section 17 enterprises that consists of two incentive programs, one for medium-sized investments and one for large infrastructure projects. Incentive program 1 is focused on "designated industries"—non-traditional export sectors for which the government has determined Sri Lanka has a comparative advantage, which are electronics, industrial and machine tools manufactures, ceramics, glassware, mineral-based industries, rubber-based industries, and light and heavy engineering industries—plus export-oriented services, IT-related companies, regional operating headquarters, agri-business investments over R5 million (about \$51,000) and small scale infrastructure projects. These are eligible for a three-year tax holiday, preferential income tax rates of 10% in the fourth and fifth years, and a preferential income tax rate of 15% thereafter, as well as duty-free imports during the project. Incentive Program 2 is for projects over R1.2 billion (about \$15.5 million) involving electrical power, highways, airports, seaports, railways waterways, etc. According to the size of the investment, their infrastructural projects qualify for tax holidays of five to ten years, a preferential 15% tax rate thereafter, and duty-free imports of capital goods. All BOI-approved projects include no restrictions on the repatriation of profits and dividends, and free transferability of shares. The BOI's new structure of incentives is part of Sri Lanka new program of initiatives designed to attract more foreign direct investment (FDI), averaging about \$125 million per year. In 1999, FDI reached \$210 million, but then fell to \$175 million in 2000 and a meager \$82 million 2001, year of devastating terrorist attacks in both Sri Lanka and the United States. In 2002, net FDI flow increased to \$122 million. The total stock of FDI in Sri Lanka as of 2002 is estimated at about \$3 billion. The largest investments have been in the power sector, followed by the textiles, telecommunications and chemises. Reliable statistics on FDI by country are not available, but the US State Department estimates that the largest investors have been South Korea, Japan, the United States (about \$200 million in all), Australia, Hong Kong, Singapore and the United Kingdom. Sri Lanka has negotiated bilateral investment treaties (BITs), including investment protection provisions, with 24 countries.

Net flows of foreign indirect investment (FII), as reflected in portfolio investment through the Colombo Stock Exchange (CSE), have been negative since 1998, the year of the nuclear tests by Pakistan and India, and of the aftermath of the Asian financial crisis. The value of the CSE peaked in 1994, and as of mid year 2002, had recovered only about 70% of this high value,

and was at levels not seen since 1991. The net outflow was an estimated \$11 in 2001.

A major step towards increasing investor confidence was taken with the institution of the peace process following the cease-fire between the government and the LTTE in February 2002. At the end of 2002, the government relaxed its investment rules allowing 100% foreign equity in a number of services—banking, finance, insurance, stock-brokerage, construction of residential buildings and roads, supply of mass transportation, telecommunications, production and distribution of energy and professional services. Other sectors remain restricted and subject to case-by-case approval for foreign equity exceeding 49%, including most plantation enterprises—tea, rubber, cocoa, sugar and spices—and there remains a short prohibited list, which, except for franchises, keeps foreigners out of small scale enterprises. The government's policy of deregulation of the investment climate reflects pressure from the IMF, the World Bank, the Asian Development Bank (ADB), and its own precarious foreign reserve position, which dropped to level equivalent to 1.5 months of imports in 2001, and in 2003 was still below a level equivalent to 3 months imports.

### 3<sup>9</sup>ECONOMIC DEVELOPMENT

Since independence, successive governments have attempted ambitious economic development programs with mixed results. The nationalization in 1962 of three Western oil companies and in 1975 of large rubber and tea plantations was intended to end the nation's economic dependence and neocolonialism, and to create an egalitarian socialist society. The goals of the last five-year plan for 1972–76—to achieve an economic growth rate of 6% annually, to create new jobs, and thereby to ameliorate unemployment—were not met, in part because of drought and unexpected increases in the costs of crude oil, fertilizer, and other imports.

The UNP government elected in 1977 chose as the centerpiece of its development strategy the Mahaweli hydroelectric-irrigation-resettlement program, the largest development project ever undertaken in Sri Lanka. The project involved diverting the Mahaweli Ganga in order to irrigate 364,000 hectares (900,000 acres) and generate 2,037 million kWh of hydroelectricity annually from an installed capacity of 507 Mw. Launched in 1978, construction was largely completed by 1987, at a cost of about \$2 billion. Even as the UNP government launched this massive capital program, it sought to encourage private investors, limit the scope of government monopolies, and reduce subsidies on consumer products. Foreign trade, investment, and tourism were all encouraged by the government authorities. In 1986, foreign aid rose 23% in real terms over 1985, largely to finance further massive hydroelectric projects.

While government development policies resulted in moderate growth during the late 1970s and early 1980s, the outbreak of civil war in 1983 led to a rapid rise in defense spending (from 1% of GDP in 1980 to over 4% in 1996), exacerbating structural weaknesses in the Sri Lankan economy. By 1989, rapidly declining economic growth and worsening fiscal and balance of payment problems reached crisis proportions, prompting renewed stabilization and adjustment efforts. Corrective policies involved stimulating savings through new banking regulations and other monetary-tightening measures, reduction of subsidies on wheat and fertilizers, government expenditure reductions, currency devaluation, privatization of many state enterprises, and other incentives for private investment. These measures resulted in greatly improved economic performance in the early 1990s, despite unfavorable weather and the on-going insurgency.

In 1996, as the market showed signs of weakening, the government reaffirmed its free-market policies. From 1997 to 2001, however, the economy was whipsawed between a series of exogenous shocks and political pressures to maintain welfare

expenditures. In 1998 the insecurity arising from the Tamil Tiger separatist campaign was aggravated by Pakistan's and India's the nuclear tests, and the aftermath of the Asian financial crisis. Recovery in 1999 and 2000 was cut short in 2001 by the global economic slowdown, the LTTE terrorist attack on the country's international airport in July, the 11 September terrorist attacks on the United States, and the onset of severe drought, all of which combined to produce Sri Lanka's first year of economic contraction on record. 2002, by contrast, was marked by hopeful developments. In February, the Norwegian-brokered ceasefire between the LTTE and the government was reached, and in May, the end of drought conditions meant the restoration of reliable power supplies, which also helped bring down agricultural prices.

Laws encompassing welfare reform, tax reform and investment deregulation were passed, and, in January 2003, the Financial Responsibility Act (FRA) was adopted setting a course to bringing the budget deficit down to below 5% of GDP by 2006, and of limiting government borrowing to less than 10% total revenue. In all, 36 new laws were introduced by the government to buttress the economy's financial stability and the government's economic program adopted for 2003–2006. The three-year program aims at the reduction of poverty through private-sector growth. The strategy focuses on creating conditions conducive to private sector growth and a sound fiscal position, and for helping establish lasting peace through relief, rehabilitation, and reconstruction (RRR). The program is being pursued in close conjunction with a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF/EFF) with a credit line of SDR413.4 (\$567 million) approved in April 2003. Although aiming at sustained growth of 8–10% in the long run, the medium term goal is an average 61/2% real GDP growth for 2003–06. To achieve program's objectives, government policies are focused on four areas: 1) restoring fiscal sustainability, including raising revenues by 21/2% of GDP; 2) implementing structural reforms mainly involving deregulation and privatization; 3) creating opportunities for the poor to share more fully in the benefits of economic growth through improvements in infrastructure and education; and 4) garnering resources for reconstruction, including through donor assistance and government investments.

#### 40 SOCIAL DEVELOPMENT

Despite low per capita income, Sri Lankans have enjoyed a relatively high standard of living because of generous social welfare programs. Through a provident fund system, the government pays monthly allotments to the aged, sick, and disabled, to destitute widows, and to wives of imprisoned or disabled men. The program is financed by 8% employee contributions and 12% employer contributions. Old age benefits are paid as a lump sum grant equal to total contributions plus interest. Medical care is available free of charge in government hospitals and clinics. The law provides for a system of family allowances, paid by the government, for families earning less than 1,000 rupees per month.

To stimulate private efforts, the government makes grants to supplement the funds of volunteer agencies engaged in various welfare activities, particularly orphanages, homes for the aged, and institutions for the mentally and physically handicapped.

Although women have equal rights under law, their rights in family matters, including marriage, divorce, child custody, and inheritance, are often dictated by their ethnic or religious group. Recent legislative changes have strengthened the rights of women. New laws address sexual harassment in the workplace. However, discrimination against women in hiring, promotion and salary practices remains. Changes to the Penal code make the burden of proof more equitable in rape cases. Sexual assault and spousal abuse continue to be serious problems.

Sri Lanka's Tamil population, numbering 1 million, are not entitled to either Indian or Sri Lankan citizenship, and face systemic discrimination. Human rights abuses are committed by both the government and Tamil separatist forces as part of ongoing hostilities between the two sides. These included poor prison conditions, torture, and arbitrary arrests, including mass arrests.

#### 41 HEALTH

The government provides medical service free or at a nominal cost to almost everyone, but its health program is hampered by a worsening shortage of trained personnel and hospital beds. Medical standards, traditionally British, are considered excellent, but in recent years many Sri Lankan physicians and surgeons have moved their practices abroad—particularly to the United States and the United Kingdom, where remuneration is much higher. There are a limited number of private hospitals and medical practitioners. In 2000, 83% of the population had access to safe drinking water and the same percentage had adequate sanitation. As of 1999, total health care expenditure was estimated at 3.5% of GDP. As of 1999, there were an estimated 0.4 physicians and 2.7 hospital beds per 1,000 people.

Malaria, smallpox, cholera, and plague have been virtually eliminated. Malnutrition, tuberculosis (3,405 cases in 1994), and the gastrointestinal group of infectious diseases are the chief medical problems. In 1991–95, 38% of children under 5 years of age were considered malnourished. In 1995, immunization rates for children up to one year old were tuberculosis, 89%; diphtheria, pertussis, and tetanus, 91%; polio, 91%; and measles, 88%. As of 1999 rates for DPT and measles were, respectively, 99% and 95%.

The infant mortality rate in 2000 was 16.1 per 1,000 live births while the maternal mortality rate was 60 per 100,000 live births for 1998. Birth control was used by 66% of married women in 1993. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 16.4 and 6.4 per 1,000 people. Between 1984 and 1992, there were 32,000 civil war-related deaths. Other leading causes of death from 1990 statistics included communicable diseases and maternal/perinatal causes (232 per 100,000 people); noncommunicable diseases (459 per 100,000); and injuries (194 per 100,000). Average life expectancy in 2000 was 73 years. As of 1999, the number of people living with HIV/AIDS was estimated at 7,500 and deaths from AIDS that year were estimated at 490. HIV prevalence was 0.07 per 100 adults.

#### 42 HOUSING

Rapid population increase, coupled with a lag in construction during and immediately following World War II, led to an acute housing shortage, high rents, high building costs, and many unsanitary and unfit houses in Sri Lanka's first decades after independence.

Preliminary results from the 2001 census indicated a total of 4,687,157 housing units nationwide. As of 2000, the average household had 4.5 members. About 64% of all households were nuclear families. About 96% of urban dwellings and 73% of rural dwellings had access to safe drinking waters. Only 73% of all households had access to safe sanitation systems.

#### 43 EDUCATION

For the year 2000, 8.4% of the adult population was estimated to be illiterate (males, 5.5%; females, 11.1%). All education from kindergarten up to and including university training is free. Education is compulsory for 10 years, except when schools are not within walking distance of the pupil's home.

The public educational system was consolidated in 1970 into five years of elementary, six years of lower secondary, and two years of higher secondary. In 1996, there were 9,554 primary

schools, with 1,843,848 students and 66,339 teachers. Student-to-teacher ratio stood at 28 to 1. In 1995, secondary schools had 2,314,054 students and 103,572 teachers. As of 1999, an estimated 97% of primary-school-age children were enrolled in school. In the latter part of the 1990s, the estimated expenditure on education was 8.9% of the central government budget. As of 1995, public expenditure on education was 3% of GDP. Since 1986, the educational system has been separated into two systems based on language, one in which Sinhalese is the medium of instruction and the other in which the medium is Tamil.

Beginning in 1978, Sri Lanka reorganized its higher education system; in 1986 there were nine universities: Colombo, Peradeniya, Moratuwa, Sri Jayawardhanapura, Kelaniya, Jaffna, Ruhuna, Open University, and Batticaloa. These universities operate as independent units under the University Grants Commission, which is funded by the Ministry of Education. Included in the consolidated university system are the former Vidyalankara University (established 1959), previously known as the Vidyalankara Pirivena (established 1875), a celebrated seat of learning for Oriental studies and Buddhist culture; the former Vidyodaya University (established 1959); and the former University of Ceylon (founded 1942). In 1995, universities and equivalent institutions had 2,636 teachers and 63,660 students.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Colombo holds 206,300 volumes and is the largest public library in the country. Apart from the libraries in Anuradhapura, Jaffna, Kandy, and a few other towns, most public libraries have only small collections of books. The University of Peradeniya has holdings of 670,000 volumes, while the University of Colombo has 240,000. There are several special libraries in Colombo, including the National Museum Library, which contains 681,000 volumes (147,000 which are monographs) and has been a depository for Ceylonese and Sri Lanka publications since 1885.

The five national museums, at Colombo, Galle, Jaffna, Kandy, and Ratnapura, contain collections pertaining to paleontology, zoology, prehistory, archaeology, and ancient art. One of Asia's finest zoological collections, as well as the largest known collection of Sinhala palm-leaf manuscripts, is in the Colombo museum. Three national botanical gardens, located at three different elevations above sea level, represent Sri Lanka's three distinct zones of vegetation. There are several archeological, ethnographic, and folk museums in the country. The Dutch Period Museum, the Art Gallery of the Sri Lankan Society of Art, the Natural History Museum, and a university archaeological museum are all in Colombo.

#### 45 MEDIA

The central government owns and operates all telephone, telegraph, cable, and radio facilities, except in a few rural districts, which are served by private exchanges. In 1998 there were 494,509 telephones, more than half of which were in Colombo. In 1999, cellular subscribers numbered 228,604. Domestic telephone service is reportedly inadequate, while international service is good.

The government operates both commercial and noncommercial radio broadcasting services in Sinhala, Tamil, and English and began television service in 1982. The Sri Lanka Broadcasting Corporation airs broadcasts on AM, FM, and shortwave. As of 1999, there were 12 AM and 5 FM radio stations and 21 television stations. In 2000 there were 208 radios and 111 television sets for every 1,000 people. In 2001, Internet service was available through about five service providers, who were serving 121,500 subscribers that year.

As of 2002, Sri Lanka had more than 10 daily newspapers. The principal morning and evening dailies (with 2002 daily circulation) were the following:

	LANGUAGE	CIRCULATION
COLOMBO		
<i>Daily Lankadeepa</i>	Sinhala	259,172
<i>Dinamina</i>	Sinhala	140,000
<i>Divaina</i>	Sinhala	100,000
<i>Dawasa</i>	Sinhala	108,000
<i>The Island</i>	English	80,000
<i>Daily News</i>	English	65,000
<i>Virakesari</i>	Tamil	48,500

Sri Lanka also has several weekly and monthly publications.

The constitution provides for free speech and a free press; however, restrictions on national security grounds are said to be sometimes arbitrary and overly broad. In 1972, a five-member national Press Council with extensive powers over the press was established; since then varying degrees of censorship have been imposed with changing political conditions.

#### 46 ORGANIZATIONS

Chambers of commerce include the National Chamber of Commerce of Sri Lanka, the Ceylon Chamber of Commerce, the Indian Chamber of Commerce, and the Moor Chamber of Commerce. There are numerous trade and industrial organizations.

The Royal Asiatic Society of Sri Lanka promotes national history, culture, and the arts. National youth organizations include the Ceylon Student Federation, YMCA/YWCA, Communist Youth Federation of Sri Lanka, General Union of Youth and Students, Sri Lanka Catholic Student Movement, Sri Lanka Freedom Party Youth Organization, Girl Guides Association, Sri Lanka Mahajana Youth Federation, and the Sri Lanka Scout Association. Women's organizations include the Hindu Women's Society, the Muslim Women's Research and Action Front, and the Center for Women and Development.

Social action organizations include the Center for Society and Religion and the Civil Rights Movement of Sri Lanka. The Red Cross is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

The principal tourist attraction is the sacred city of Anuradhapura, home of the Seated Buddha, Buddhist temples, palaces, and the sacred bo tree, grown from a sapling of the tree under which the Buddha is said to have attained enlightenment. Other popular sites include the ancient cities of Polonnaruwa and Kandy, with its Dalada Maligawa temple, where a sacred tooth relic of the Buddha is preserved. The botanical gardens near Kandy and the Dehiwela Zoo at Colombo are also popular.

Sri Lanka's recreational facilities include the beach resorts of Bentota and Negombo, which, like Colombo, have modern hotels. Popular water sports are swimming, fishing, sailing, surfing, water skiing, and skin diving. The island has excellent facilities for golf, tennis, squash, soccer, rugby, and cricket.

Visitors need a valid passport and a visa, except for nationals of most Western European, ASEAN, and ANZUS countries, as well as Japan, who may stay for up to a month without a visa. Passengers traveling through infected areas must also possess valid certificates of vaccination against yellow fever.

International tourism has grown in Sri Lanka in response to the governments promotion of the industry. Europe is the leading generating region of tourists, accounting for over 60% of the 400,414 tourists in 2000. Tourism receipts were estimated at \$253 million that year. The country had 15,860 hotel rooms with 29,363 bed-places and a 52% occupancy rate.

According to 1999 UN estimates, the cost of staying in Colombo was \$94 per day. Elsewhere in the country, travel expenses averaged \$60 per day.

#### 48 FAMOUS SRI LANKANS

One of the great rulers of the Anuradhapura period was Dutugemunu (fl.100 BC), who is famous for having saved Ceylon and its religion from conquest by Indian invaders. Mahasen, a king in the 3d century AD, built many fine dagobas and other monuments that delight and amaze visiting art lovers. The classic period of Ceylonese art flourished under Kassapa, a king of the 5th century. The great figure of the Polonnaruwa period was Parakramabahu I (the Great, r.1153–86), who unified the government of Ceylon, built many magnificent structures, and organized the economy. The most famous political figure in modern Ceylon was Don Stephen Senanayake (1884–1952), leader of the independence movement and first prime minister of independent Ceylon. Solomon West Ridgway Dias Bandaranaike (1899–1959), prime minister from 1956 to 1959, is regarded as the founder of Ceylon as a socialist state. His widow, Sirimavo Bandaranaike (b.1916), was prime minister during 1960–65, 1970–77, and was appointed again in 1994. Her daughter, Chandrika Bandaranaike Kumaratunga (b.1946) was elected president in 1994. Junius Richard Jayewardene (1906–96), who helped usher in economic reforms and a free enterprise system, became Sri Lanka's first president in 1978 and served until 1982. Science-fiction writer Sir Arthur C. Clarke (b. England, 1917) is one of Sri Lanka's most famous expatriate residents. Born in Sri Lanka, Canadian author and poet Michael Ondaatje (b.1943) received the 1992 Booker McConnell Prize for his novel *The English Patient*.

#### 49 DEPENDENCIES

Sri Lanka has no territories or colonies.

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# SYRIA

Syrian Arab Republic

*Al-Jumhuriyah al-‘Arabiyah as-Suriyah*

**CAPITAL:** Damascus (Dimashq)

**FLAG:** The national flag is a horizontal tricolor of red, white, and black stripes; in the white center stripe are two green five-pointed stars.

**ANTHEM:** *An-Nashid as-Suri (The Syrian National Anthem)* begins “Protectors of the nation, peace be upon you.”

**MONETARY UNIT:** The Syrian pound (S£) is a paper currency of 100 piasters. There are coins of 25 and 50 piasters and 1 Syrian pound and notes of 1, 5, 10, 25, 50, 100, and 500 Syrian pounds. S£1 = \$0.0194 (or \$1 = S£51.50) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but local units are widely used.

**HOLIDAYS:** New Year’s Day, 1 January; Revolution Day, 8 March; Egypt’s Revolution Day, 23 July; Union of Arab Republics Day, 1 September; National Day, 16 November. Muslim religious holidays include ‘Id al-Fitr, ‘Id al-‘Adha’, Milad an-Nabi, and Laylat al-Miraj. Christian religious holidays include Easter (Catholic); Easter (Orthodox); and Christmas, 25 December.

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

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

Situated in southwest Asia, at the eastern end of the Mediterranean Sea, Syria has an area of 185,180 sq km (71,498 sq mi). Comparatively, the area occupied by Syria is slightly larger than the state of North Dakota. Included in this total is the Golan Heights region (1,176 sq km/454 sq mi), which Israel captured in 1967 and annexed on 14 December 1981; the annexation was denounced by Syria and unanimously condemned by the UN Security Council. Syria extends 793 km (493 mi) ENE–WSW and 431 km (268 mi) SSE–NNW. It is bounded on the N by Turkey, on the E and SE by Iraq, on the S by Jordan, on the SW by Israel, and on the W by Lebanon and the Mediterranean Sea, with a land boundary length of 2,253 km (1,400 mi) and a coastline of 193 km (120 mi).

## <sup>2</sup>TOPOGRAPHY

There are five main geographic zones: (1) the narrow coastal plain along the Mediterranean shore; (2) the hill and mountain regions, including the Ansariyah (‘Alawite) Mountains in the northwest paralleling the coast, the eastern slopes of the Anti-Lebanon Mountains, and the Jabal Ad-Duruz in the southeast; (3) the cultivated area east of the Ansariyah and Anti-Lebanon ranges, which is widest in the north, discontinuous between Homs and Damascus; (4) the steppe and desert region, traversed by the Euphrates (Al-Furat) River; and (5) the Jazirah in the northeast, steppe country with low rolling hills.

The Anti-Lebanon Mountains, extending southward along the Lebanese border, serve as a catchment for the rainfall of central Syria. To the north of this range, the Ansariyah Mountains, which reach heights of over 1,500 m (5,000 ft), slope westward to the Mediterranean. The Orontes (Asi) River irrigates areas on the eastern side of the Ansariyah Mountains.

## <sup>3</sup>CLIMATE

The climate varies from the Mediterranean type in the west to extremely arid desert conditions in the east. The coastal regions have hot summers and mild winters; in the mountains, summer

heat is moderated according to elevation and the winters are much more severe.

The steppe and desert areas have extremely hot, arid summers and greatly varying winter temperatures ranging from 21°C (70°F) to below freezing. Average temperatures for Damascus range from about 21° to 43°C (70–109°F) in August and from about –4° to 16°C (25–61°F) in January. Rainfall averages about 75 cm (30 in) on the coast, around 125 cm (50 in) in some mountain areas, and less than 25 cm (10 in) in the eastern three-fifths of the country. In dry years, rainfall may be reduced by half.

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

The coastal plain is highly cultivated and the little wild growth found is mainly of the brushwood type, such as tamarisk. On the northern slopes of the Ansariyah range are remnants of pine forests, while oak and scrub oak grow in the less well-watered central portion. Terebinth is indigenous to the low hill country of the steppes and wormwood grows on the plains. Some sections of the Jabal Ad-Duruz are covered with a dense maquis.

The wildlife of Syria includes types common to the eastern Mediterranean region, together with typical desert species. There is a diminishing number of bears in the mountains. Antelope are found wherever grazing is available and human competition not too severe. There are also deer in some sections. Smaller animals include squirrel, wildcat, otter, and hare. In the desert, the viper, lizard, and chameleon are found in relatively large numbers. Native birds include flamingo and pelican, as well as various ducks, snipe, and other game birds.

## <sup>5</sup>ENVIRONMENT

Much of Syria’s natural vegetation has been depleted by farming, livestock grazing, and cutting of trees for firewood and construction. The thick forests that once covered western Syria have been drastically reduced; as a result, soil erosion and desertification are extensive. The salinity of the soil is also a problem, causing a loss of more than \$300 million worth of agricultural products per year. Other environmental problems include pollution of coastal waters from oil spills and human

wastes and contamination of inland waterways by industrial wastes and sewage.

Only 64% of the people living in rural areas have pure water. The pollution of the nation's water supply also leads to the spread of diseases. The nation's cities produce an average of 1.3 million tons of solid waste per year.

Environmental awareness has been a growing concern in the Arab world. The UN and Middle Eastern environmental organizations have sponsored Arab Environment Day to bring the focus of the nation's attention on environmental problems. The quantity of native wildlife had been so seriously depleted that in 1979 the government banned hunting for five years. In 2001, four of Syria's mammal species and seven of its bird species were endangered. Seven types of plants were also endangered. The Mediterranean monk seal, bald ibis, and African softshell turtle are endangered. The Anatolian leopard, cheetah, Syrian wild ass, Israel painted frog and Persian fallow deer are extinct.

## 6 POPULATION

The population of Syria in 2003 was estimated by the United Nations at 17,800,000, which placed it as number 55 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 41% of the population under 15 years of age. There were 102 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.38%, with the projected population for the year 2015 at 23,018,000. The population density in 2002 was 95 per sq km (245 per sq mi), but most of it was concentrated in a small area; 70% of Syria's people live in Damascus and the six western provinces. Desert areas in the east are largely uninhabited.

It was estimated by the Population Reference Bureau that 55% of the population lived in urban areas in 2001. The capital city, Damascus, had a population of 2,270,000 in that year. The population of Aleppo (Halab), a northern trading and agricultural center, was an estimated 2,173,000. Other main cities are Homs (Hims), 481,000; Hamath (Hama); and Latakia (Al-Ladhiqqiyah). According to the United Nations, the urban population growth rate for 2000–2005 was 3.3%.

## 7 MIGRATION

In the past there was sizable emigration by Syrians to Europe, Africa, and the Western Hemisphere, but emigration had virtually ceased by the late 1940s. Since World War I there has been substantial internal migration from the coastal mountains to the central plains and, in general, from rural areas to the towns. There is considerable migration across the borders with Lebanon and Jordan. About 150,000 Syrians working in Kuwait returned during 1990–91. As of October 1995, there were 300,000 Palestinian refugees in Syria. In 1997, the Syrian government accepted the UNHCR's protection mandate for all recognized refugees in the country. As of 1999, there were 7,210 registered refugees in Syria, including 3,950 urban refugees in Damascus and another 3,260 refugees living in El Hol Camp in Hassakeh Governorate. In 2000 the net migration rate was -0.2 migrants per 1,000 population. The total number of migrants that year was 903,000 including approximately 391,000 refugees. The government views the emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

Racially, the Syrians are varied, and except where ethnic distinctions have found religious expression, racial types are generally intermixed. It is estimated that Arabs make up about 90.3% of the population. Other ethnic groups make up the remaining 9.7%, including Kurds, Armenians, and others.

## 9 LANGUAGES

The official language and language of the majority is Arabic, but dialect variations are distinct from region to region and even from town to town. The written language, classical Arabic, based on the Koran (Qur'an), is the basis of the standard spoken form. Kurdish and Armenian are the principal minority languages. Aramaic, the language of Jesus, and Circassian are also widely understood. French and English are somewhat understood.

## 10 RELIGIONS

Islam is the religion of the vast majority. About 74% of the population are Sunni Muslims. Alawite, Druze, Ismailis, Shi'a, and Yazidis account for another 16% of the population. The Alawite constitute an important minority in Syria and hold a disproportionate share of political power; although they consider themselves Muslims, they combine their avowed creed with Christian rituals and esoteric cults. Also important are the Druzes (most of whom live in the Jabal Ad-Duruz), whose religion is an offshoot of Shi'a Islam. Orthodox Muslims, Alawites, and Druzes together constituted about 90% of the population in 1999. About 10% of the population is Christian, with Greek Orthodox being the largest denomination. Other Christian churches include Armenian Catholic, Armenian Orthodox (Gregorian), Syrian Catholic, Syrian Orthodox, Maronite Christian, Baptist, Mennonite, The Church of Jesus Christ of Latter-Day Saints, and Nestorian (Chaldean). The small Jewish population is urban, living primarily in Damascus, Al Qamishli, and Aleppo.

Under the 1973 constitution, Islam is no longer declared to be the religion of the state, but the president of Syria must still be a Muslim, and Islamic law is a major source of legislation. Freedom of worship is guaranteed by the constitution. Armed opposition to the government by Muslim fundamentalists grouped in an Islamic Front took many lives during 1976–82. The movement collapsed following the government's suppression of a major uprising in Hamath in February 1982, an action in which upwards of 5,000 died. Jehovah's Witnesses have been banned by the government, which considers them to be a politically motivated Zionist organization. Certain Christian and Muslim holidays are officially observed.

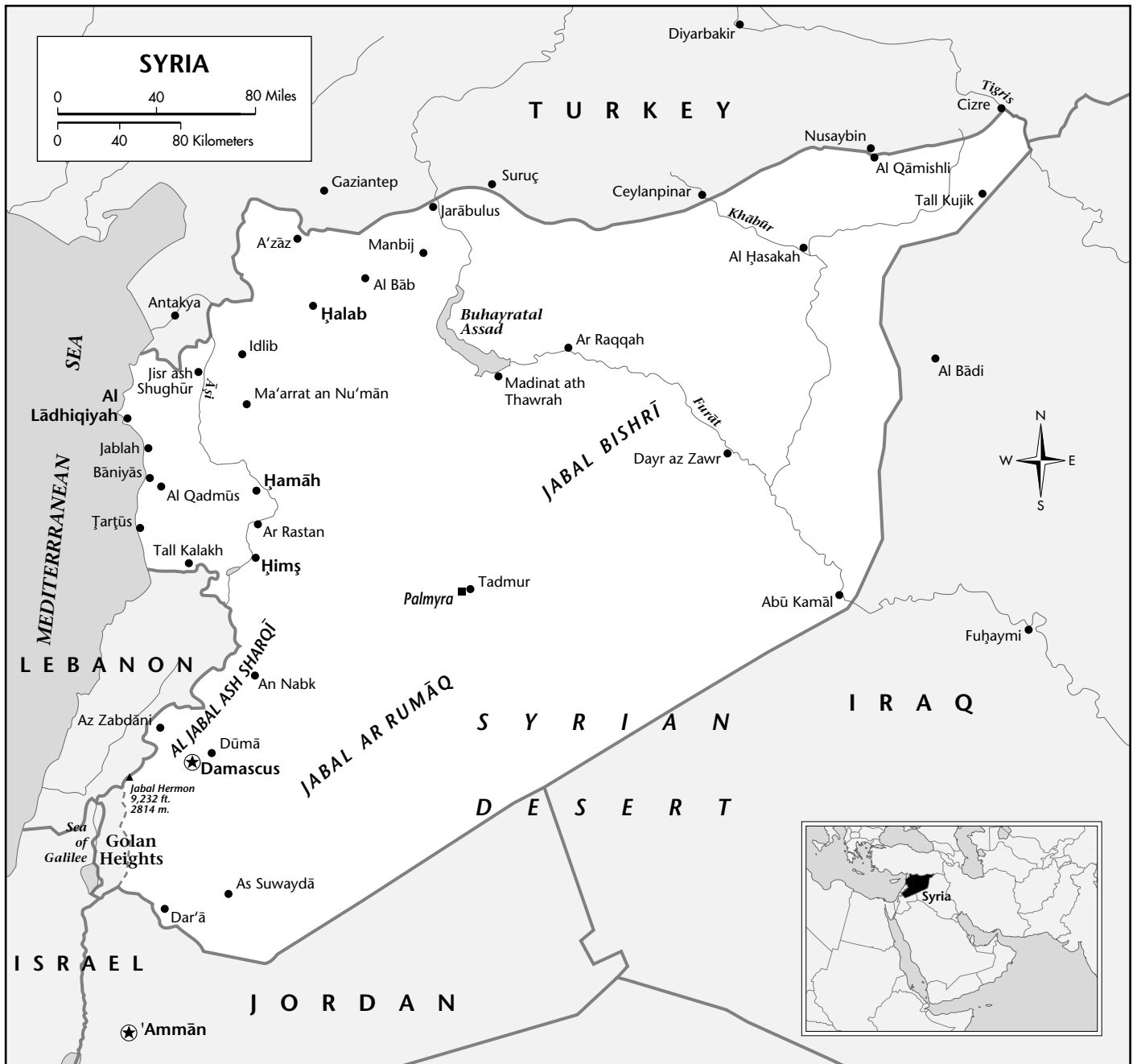
## 11 TRANSPORTATION

The Syrian national railway system consists of 2,750 km (1,709 mi) of which 2,423 km (1,506 mi) is standard gauge line: three sections are the Syrian section of the old Baghdad Railway; the main line from Damascus to Aleppo, with connections to Tartus, points in Lebanon, and the phosphate mines; and the railway linking Latakia, Aleppo, and Al-Qamishli, built with Soviet help and completed in 1981. There are also 327 km (203 mi) of narrow-gauge line-part of which is the pre-World War I Hejaz Railway, linking Damascus to Jordan and Lebanon. Syria is also connected by rail with Turkey (thus with Europe) and Iraq.

The road system, though growing, remains inadequate in view of the demands imposed by increased economic activity. In 2002, Syria had 41,451 km (25,758 mi) of roads, of which only 9,575 km (5,950 mi) were paved, including 877 km (545 mi) of expressways. There are road connections between the major towns and with Iraq, Jordan, Lebanon, and Turkey.

Tartus and Latakia are the main ports. Jablah and Baniyas are minor ports. In 2002, the merchant fleet was comprised of 143 vessels with a capacity of 482,958 GRT. Also in 2001, Syria had 99 airports, of which 24 had paved runways. Damascus is a connecting point for a number of major airlines; the main passenger terminal of its international airport was completed in 1982. Another principal airport is Aleppo International at Aleppo. Syrian Arab Airlines provides service to Aleppo, Al-Qamishli, Latakia, and other airports; it also flies to other Arab





LOCATION: (1949): 32°30' to 37°30' N; 35°50' to 42°E. BOUNDARY LENGTHS: Turkey, 822 kilometers (510 miles); Iraq, 605 kilometers (378 miles); Jordan, 375 kilometers (234 miles); Israel, 76 kilometers (47 miles); Lebanon, 375 kilometers (234 miles); Mediterranean coastline, 193 kilometers (117 miles). TERRITORIAL SEA LIMIT: 35 miles.

countries and to Europe and Africa. In 2001, 760,900 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Archaeological excavations at Ebla, in northern Syria, have revealed that Syria was the center of a great Semitic empire extending from the Red Sea north to Turkey and east to Mesopotamia around 2500 BC. At that time, Damascus, traditionally the world's oldest continuously occupied city and certainly one of the world's oldest cities, was settled. Later, an advanced civilization was developed along the Syrian and Lebanese coastlands under the Phoenicians (c.1600–c.800 BC),

among whom trade, industry, and seafaring flourished. The wealth of the land attracted many conquerors, and Syria was invaded successively by Hittites, Egyptians, Assyrians, Persians, and others. In the 4th century BC, Syria fell to Alexander the Great, first in a long line of European conquerors. After the breakup of his empire, dominion over Syria was disputed by the Seleucid and Ptolemaic successor states, and Persians invaded when the opportunity arose; eventually the Seleucids gained control. In the 1st century BC, all of Syria, Lebanon, Palestine, and Transjordan was conquered by the Romans and organized as the province of Syria; these areas are termed “geographic” Syria. Christianity, particularly after its official recognition in the early

4th century AD by Constantine the Great, spread throughout the region.

In 637, Damascus fell to the Arabs. Most Syrians were converted to Islam, and Arabic gradually became the language of the area. Under the Umayyad caliphs, Damascus became the capital of the Islamic world and a base for Arab conquests. Under the 'Abbasids, the caliphate was centered at Baghdad, and Syria was reduced to provincial status. Thereafter, geographic Syria fell prey to a succession of invaders, including Byzantines and Crusaders from Western Europe. Some parts of Syria came under the sway of Seljuks and Ayyubids, a Kurdish dynasty. The latter was most prominent under its leader Saladin (Salah ad-Din). During the 13th century, Mongols frequently invaded Syria, and for 200 years parts of Syria were controlled by Mamluks, who ruled it from Egypt through local governors. In 1516, the Ottoman forces of Sultan Selim I defeated the Mamluks, and for the next four centuries, Syria was a province of the Ottoman Empire.

During World War I, Sharif Hussein (Husayn Ibn-'Ali) of Mecca threw in his lot with the Allies and revolted against Ottoman rule. After the war, with British forces in control, the formal entry of Allied troops into Damascus was made by Arab forces under Faisal (Faysal), Hussein's son, on 30 October 1918. Faisal and the Arab nationalists, whose number had been growing since 1912, opposed French aspirations to Syria and claimed independence under the terms of agreements between the British government and Hussein. In March 1920, Faisal was proclaimed king by a congress representing Syria, Lebanon, and Palestine. However, geographic Syria was divided into British and French mandates. In June, the French, who had been allotted a mandate for Syria and Lebanon by the Agreement of San Remo (April 1920), ejected Faisal and installed local administrations of their own choosing. Arab nationalists resented French rule; there was a major revolt from 1925 to 1927, and unrest persisted until the outbreak of World War II. In 1941, Free French and British forces wrested control of Syria from Vichy France. Two years later, under pressure from the UK and the United States, the French permitted elections and the formation of a nationalist government. The United Kingdom and the United States recognized Syria's independence in 1944, and the last French troops departed on 17 April 1946.

Two parties that had led the struggle for independence, the Nationalist Party and the People's Party, dominated Syrian political life in the immediate postwar period. However, the Palestine War of 1948-49, which resulted in the defeat of the Arab armies and the establishment of Israeli statehood, discredited the Syrian leadership. In December 1948, riots against the government were put down by the army, and several army factions struggled for more than a year to gain control of the Syrian state. Col. Adib Shishakli ruled Syria for most of the period from December 1949 to March 1954, when he was ousted by another army coup.

The years from 1954 to 1958 were marked by the growth of pan-Arab and left-of-center political forces at the expense of the traditional merchant-landowner class, which dominated the Nationalist and People's parties. Foremost among these forces was the Arab Socialist Ba'ath Party, which saw in Gamal Abdel Nasser (Nasir), the president of Egypt, a kindred pan-Arabist. Military officers remained active in political affairs but were split into competing factions. Some elements of the Nationalist and People's parties sought to counter the left by seeking help from Iraq and other countries. In late 1957, influential military officers decided to seek unity with Egypt as a means of suppressing factionalism. Enthusiastically supported by the Ba'ath and other pan-Arabists, they appealed to Cairo. Nasser agreed, and on 1 February 1958, Egypt and Syria proclaimed the union of Syria and Egypt as the United Arab Republic (UAR).

A monolithic single-party structure replaced the lively Syrian political tradition; decisions were made in Cairo; land reforms were introduced. Syrians chafed under Egyptian rule, and in September 1961, after a military coup, Syria seceded from the UAR. A period of political instability followed until, on 8 March 1963, power was seized by a group of leftist army officers calling themselves the National Council of the Revolutionary Command, and a radical socialist government dominated by the Ba'ath Party was formed.

The period that followed was marked by internal struggles between the founders of the Ba'ath Party and a younger generation of party militants, many in the military. That generation came to power in 1966 but split in succeeding years. In the June 1967 war between Israel, on one side, and Syria, Egypt, and Jordan on the other, Israel gained control of the Golan Heights. Gen. Hafez al-Assad (Hafiz al-Asad), a former chief of the Air Force and Defense Minister, became chief of state on 16 November 1970; he assumed the presidency, a reinstated office, for the first of four seven-year terms beginning in March 1971, and a permanent constitution was ratified by popular referendum on 12 March 1973. On 6 October of that year, Syrian troops launched a full-scale attack against Israeli forces in the Golan Heights, as the Egyptians attacked in the Suez Canal area. After the UN cease-fire of 24 October, Israel remained in control of the Golan Heights, and Syria boycotted peace negotiations in Geneva. However, on 31 May 1974, Syria signed a US-mediated disengagement accord with Israel, restoring part of the Golan Heights to Syria and creating a buffer zone, manned by a UN peacekeeping force. The occupied sector of the Golan Heights was annexed by Israel in 1981; outside powers criticized and did not recognize the annexation.

In recent years, Syria has intervened militarily in neighboring Arab states to secure political ends. In September 1970, Syrian armored forces crossed the border into Jordan to support the Palestinians during the Jordanian civil war, but the Syrians were driven back by troops loyal to Jordan's King Hussein (Husayn) and by the threat of Israeli intervention. In 1976, Syrian troops entered Lebanon, nominally to enforce a cease-fire between Christian and Muslim forces but actually to help the Christian forces prevent a victory by leftist Muslims and Palestinians. Syria strongly opposed the Egyptian-Israeli peace treaty of 1979 and was one of the few Arab states to support Iran in its war against Iraq, with which Syria earlier had hoped to merge. Another merger plan, this one with Libya, was announced in September 1980, but the effort was stillborn. In October, Syria signed a 20-year friendship treaty with the USSR; subsequently Syria received large quantities of Soviet arms, including anti-aircraft missiles, which it deployed in the Bekaa (Biqā') Valley in Lebanon. After Israel invaded southern Lebanon in June 1982, the Israelis knocked out the missile batteries, crippled Syria's Soviet-equipped air force, and trapped Syrian as well as Palestinian fighters in Beirut before allowing their evacuation. Having reequipped its army with Soviet weapons, Syria has maintained 25,000-35,000 troops in Lebanon ever since. In the continuing Lebanese civil war, Syria supported the Druze and Muslim militias against the Maronite Lebanese Forces.

Syria made repeated attempts to establish a cease-fire among Lebanon's factions. In 1989, it endorsed the Taif Accord for ending the conflict and, later, when Christian militia General Michel Aoun declared himself president of Lebanon and sought to expel the Syrian forces, assaulted his enclave with artillery and drove him out of the country. In 1991, Syria backed moves to disarm and disband the militias and signed a treaty with Beirut to put relations on a stable and peaceful basis. Under the Taif Accord, Syria was to have withdrawn its forces from Beirut and coastal areas by September 1992. Syria's withdrawal from Beirut took place in June 2001.

The authoritarian Assad regime has been condemned by outsiders for assisting terrorist and drug smuggling groups. Both charges have been played down since Syria joined the coalition of forces against Iraq in 1990 and agreed to participate in direct peace talks with Israel in 1991. The collapse of the Soviet Union removed Syria's most important external support, nullifying Assad's proclaimed strategy of refusing to negotiate with Israel until Syria had gained military parity.

Internally, the regime is resented for its denial of democracy and the concentration of power with members of Assad's minority religious sect, the Alawis. The most serious internal threat came from Islamic militants in the late 1970s and early 1980s. In 1982, Assad sent the army against their stronghold in Hama, devastating a section of the city and causing tens of thousands of casualties. There has been no serious threat to the regime since then and the Ba'ath Party has continued to be used as a means of control throughout the country. In the 1990s, Assad took steps to liberalize economic controls and to permit some political freedoms. About 300 political prisoners were released in 1992 and Syrian Jews were again allowed to travel. Still, the country remains on the US State Department list of countries which support terrorism and US trade is severely restricted. In 1994 Syrian officials met with representatives of Israel's Yitzhak Rabin-led government on the return of the Golan Heights—something Assad had wanted for decades. After Rabin's assassination, however, the talks were discontinued, and the stalemate between Syria and Israel continued. In 1997, US Secretary of State Madeleine Albright announced that she would visit Syria in an effort to get the stalled peace process back on track. Syria was officially guarded about the prospects for success as it remained deeply suspicious of Israel's right-wing government led by Benjamin Netanyahu. In the same year, the Assad regime entered into negotiations with Iraq to open up its ports to the latter. Syria broke off diplomatic relations with Iraq after backing Iran in the 1980–88 war.

With the election of Labor leader Ehud Barak as prime minister of Israel in May 1999, new hope arose for improved relations with Israel, and a new round of peace talks between Syria and Israel was held in the United States, near Washington, D.C., in January 2000. In May 2000 Israel withdrew from southern Lebanon. By the late 1990s, serious concerns had been raised about the health and mental status of Syria's president, who was reportedly having "mental lapses" and suspected to be suffering from some form of dementia, as well as other infirmities. Nevertheless, Assad was elected to a fifth seven-year term in 1999 in a nearly unanimous vote. Since the 1994 death in an automobile accident of Basel, the son whom the Syrian leader had been grooming to succeed him, another of Assad's sons, Bashar, had been given increased responsibilities. Assad died on 10 June 2000 of a heart attack; 34-year-old Bashar Assad was unanimously elected secretary-general by the Ba'ath Party one week later. Parliament amended the constitution to lower the minimum age for a president from 40 to 34. In a July referendum, Bashar won overwhelming support to succeed his father, and he officially began a seven-year term as president on 17 July 2000.

In November 2000, President Assad ordered the release of more than 600 political prisoners. However, in September 2001, members of parliament and pro-reform activists were detained, which dulled hopes that Bashar had ushered in a new climate of reform in the aftermath of his father's death. Although more than 100 dissidents were released from prison in November, human rights organizations maintained that hundreds of political prisoners remain in jail in Syria. In April 2001, the outlawed Muslim Brotherhood, whose members were targeted during the 1982 Hama massacre, announced its intention to resume political activity.

Syrian troops withdrew from Beirut in June 2001 to redeploy in other parts of Lebanon, in response to greater Lebanese

criticism of Syria's presence there. Following the terrorist attacks on the United States on 11 September 2001, Assad publicly emphasized Syria's stance on terrorism, although it did not support the US-led War on Terror, stating military action was not the appropriate response to terrorism. The United States still lists Syria on its State Department list of countries supporting terrorism. In late 2002, Israel's Prime Minister Ariel Sharon accused Syria of supplying Hezbollah in southern Lebanon with thousands of surface-to-air rockets that could strike northern Israel. Israel has repeatedly called on Syria to exercise control over Hezbollah.

One of the main reasons Israel has not pulled out of the Golan Heights has to do with water. The Golan Heights provides approximately 30% of Israel's water needs. The Dan, the Banyas, and the Hatzbani, tributaries of the upper Jordan River, originate in the Golan Heights. Israel's water needs are also tied to Lebanon. Lebanon has begun to divert 50 million cubic meters a year from the Wazzani and Hatzbani Rivers to supply villages in southern Lebanon with water. The Wazzani feeds into the Hatzbani, which in turn flows into the Jordan River watershed and Lake Kinneret (Lake Tiberias or the Sea of Galilee), a major source of Israel's water supply. In 2002, Sharon identified measures to divert water from Israel as a cause for war. In 1964 Syria tried to dam the waters that fed Lake Kinneret, but Israel destroyed the dams as one of the events leading to the 1967 Six-Day War. Since then, Syria has built 23 dams on the Yarmouk River, a tributary flowing into the Jordan River south of Lake Kinneret, affecting the water supplies of Israel and Jordan.

### 13 GOVERNMENT

After independence, Syria made several attempts at establishing a constitution. The constitution of 1950 was revived in amended form in 1962 and then abrogated. A provisional constitution adopted in April 1964 was suspended in 1966 and replaced to some extent by a continuing series of edicts. The fundamental law that thus emerged considered Syria a socialist republic forming part of the Arab homeland, required that the head of state be a Muslim, recognized Islamic law as a main source of legislation, ordained collective ownership of the means of production, but permitted some private ownership.

The constitution of 12 March 1973, embodying these principles and ratified by popular referendum, vests strong executive power in the president, who is nominated by the Ba'ath Party and elected by popular vote to a seven-year term. The president, who appoints the cabinet (headed by a prime minister), also serves as commander-in-chief of the armed forces and as secretary-general of the Ba'ath Party; three vice presidents were named in March 1984, including President Assad's younger brother Rifaat, who was dismissed from this post in 1998. There were two vice presidents in 2003. The unicameral people's assembly (Majlis al-shaab) has 250 members who are elected every four years, but who have no real power. Suffrage is universal, beginning at age 18. Syria has been under a state of emergency since 1963 (except for 1973–74). Although Bashar Assad announced in January 2001 that the emergency law was "frozen" and "not applied," the state of emergency was still in force as of February 2003.

Bashar Assad began a seven-year term as president in July 2000 following his father's death in June.

### 14 POLITICAL PARTIES

The Arab Socialist Ba'ath Party is Syria's dominant political institution. It has a countrywide organization and controls mass organizations for youth, students, women, and the like. Only the Ba'ath may carry on political activity in the armed forces. It is far larger and more influential than the combined strength of its five partners in the National Progressive Front (NPF). This official political alignment, formed by President Assad in 1972, groups

the Communist Party of Syria (SCP) and small leftist parties—the Syrian Arab Socialist Union (ASU), the Socialist Unionist Movement (ASUM), the Democratic Socialist Union Party (DSUP), and the Arab Socialist Party (ASP)—with the Ba'ath. The Ba'ath Party was founded in 1947 with goals of Arab liberation, Arab unity, and socialism. Ba'athists attained control of the government in 1963, but the party became divided into two factions, a wing of doctrinaire socialists and a more pragmatic wing. Assad, then minister of defense and a strong nationalist, seized power in a bloodless coup in November 1970 and purged the doctrinaire Ba'athists from the government. The Ba'athists have relied for public support on the minority Alawi sect, of which Assad was a member, and on the rural sector of the population generally. During his years as president, Assad appointed Ba'athist Alawis to influential positions in the government and in the military and security services. When Assad died on 10 June 2000 the Ba'ath Party held a party congress—its first since 1985—and elected Bashar Assad secretary-general. Bashar Assad succeeded his father as president the next month.

Hafez Assad, the sole presidential candidate for over 20 years, won national plebiscites by 99% majorities on 12 March 1971, 8 February 1978, 13 March 1985, 2 December 1991, and 10 February 1999. His son, Bashar, won in July 2000 by a vote of 8.6 million to 22,000. In elections on 1 December 1998, the Ba'ath won 135 seats; the ASU, 8; SCP, 8; ASUM, 7; ASP, 5; DSUP, 4; and independents, 83. Parliamentary elections were set for 2 March 2003.

## 15 LOCAL GOVERNMENT

Syria is divided into 14 provinces (*muhafazat*); every province has a governor (*muhafiz*) and council. Each province is in turn divided into districts (*mantiqat*), each headed by a *qaimmaqam*. Each district is further subdivided into subdistricts, each in the charge of a *mudir*. Governors are appointed by and are directly responsible to the authorities in Damascus.

## 16 JUDICIAL SYSTEM

The Syrian legal system is based partly on French law and partly on Syrian statutes. Investigating magistrates determine whether a case should be sent to trial. Minor infringements are handled by peace courts, more serious cases go to courts of first instance. There are civil and criminal appeals courts, the highest being the Court of Cassation. Separate state security courts have jurisdiction over activities affecting the security of the government. In addition, *Shari'ah* courts apply Islamic law in cases involving personal status. The Druze and non-Muslim communities have their own religious courts.

A Supreme Constitutional Court investigates and rules on petitions submitted by the president or one-fourth of the members of the People's Assembly challenging the constitutionality of laws or legislative decrees. This court has no jurisdiction to hear appeals for cases from the civil or criminal courts.

The constitution provides for an independent judiciary. The regular court system is independent; however, the state security courts are not completely independent from the executive.

There are no jury trials. The regular courts respect constitutional provisions safeguarding due process. The Supreme State Security Court tries political and national security cases. The Economic Security Court tries cases involving financial crimes. Both courts operate under the state of emergency rules overriding constitutional defendants' rights.

## 17 ARMED FORCES

In 2002 the active armed forces numbered some 319,000, with 354,000 reservists among the three services. The army had an estimated 215,000 regular troops, and included seven armored divisions, three mechanized infantry divisions, a Republican

Guard division, four independent infantry brigades, three SCUD missile brigades, two artillery brigades, nine special forces battalions, and one border guard brigade. The army had more than 4,700 heavy and medium tanks and sophisticated antitank and antiaircraft weapons. The navy had 4,000 personnel with vessels including two frigates and 18 patrol and coastal combatants. Naval aviation includes 16 armed helicopters. The air force had 40,000 personnel, 611 combat aircraft, and 90 armed helicopters. The air defense command numbered approximately 60,000 with 25 air defense brigades and 2 SAM regiments. Paramilitary forces included a gendarmerie of 8,000 and a workers' militia with an estimated 100,000 members. Military expenditures were reported to be \$921 million in 2000, but that may underestimate actual spending. Syria had 18,000 troops in Lebanon and employs 150 Russian advisors. The UN provides 1,037 troops to Syria.

## 18 INTERNATIONAL COOPERATION

Syria is a founding member of the UN, having joined on 24 October 1945, and belongs to ESCWA and all the nonregional specialized agencies except WIPO. It is a charter member of the Arab League, set up in 1945 to foster cooperation in foreign and domestic affairs. Syria also belongs to G-77 and OAUPEC.

Between February 1958 and September 1961, Syria and Egypt were joined in the United Arab Republic. During that period, the UAR was technically joined with Yemen in the United Arab States, though with little practical effect. Another federation, established formally in April 1963 between Syria, Egypt, and Iraq, was never implemented; it was officially terminated in July 1963 after Nasserite loyalists attempted unsuccessfully to overthrow Syria's Ba'athist regime. On 1 January 1972, Syria formally became part of the Federation of Arab Republics, with Egypt and Libya; the federation also had little practical effect because of a deterioration in Egypt's relations with Syria and especially with Libya. In June 1974, Syria and Jordan established a joint commission to coordinate foreign and military policy. Subsequent efforts to establish unions with Iraq and Libya bore little fruit. Diplomatic relations between Syria and the United States, which had been suspended after the 1967 Arab-Israeli war, were resumed on 16 June 1974, after US Secretary of State Henry Kissinger successfully mediated a Golan Heights disengagement agreement.

## 19 ECONOMY

Despite repeated announcements of economic reforms, Syria's economy continues to be dominated by the state with the government budget acting as the principle tool for managing the economy. In 2002 the government announced that its program for privatization had been replaced by a priority on making state enterprises more efficient.

Statistics on the Syrian economy are subject to government manipulation and revision, and may be inaccurate and inconsistent. Traditionally, Syria is an agricultural economy, and by 2001 estimates, this sector accounted for 40% of the labor force and 27% of the GDP. Subsistence agriculture has given way in recent years to modern production and marketing methods, although 80% is still rain-fed and vulnerable to drought. Droughts in 1997 and 1999 were significant factors lowering GDP growth. Wheat and barley constitute two-thirds of the cultivated area but cotton is the main cash crop.

Development of the state-owned oil industry and exploitation of other mineral resources, notably phosphates, have helped to diversify Syrian industry, which was formerly concentrated in light manufacturing and textiles. Although Syria's oil production is small by Middle Eastern standards, in 2001 oil accounted for 70% of Syria's exports and 20% of its GDP. Syria became an oil exporter in 1987, but at present levels of proven reserves it will become an importer against within ten years.

In recent years economic growth in Syria has depended on oil prices, foreign aid and good weather. Low oil prices and drought dampened growth in the late 1980s, but in the first half of the 1990s due to increased oil production, recovery from drought and nearly \$5 billion in foreign aid as a "reward" for its participation in the Gulf War, combined, to help the economy to register average annual growth rates of 5.3% in the late 1990s. Oil production peaked in 1996 at about 600,000 bbl/d, after which it declined due to technical problems and depletion. Modest growth was restored in 2000 and 2001 (about 2.1% and 2.0%, respectively) with the increase in oil prices. For 2002, real GDP growth is an estimated 3.2%.

On 14 July 1998 Iraq and Syria signed a Memorandum of Understanding reopening the Iraqi Petroleum Company (IPC) pipeline built in 1934 connecting the Kirkuk oil fields with the Syrian port of Banias on the Mediterranean. Syria had closed the pipeline in 1982 when it broke off diplomatic relations with Iraq and shifted to Iran as an oil supplier. The IPC pipeline had been severely damaged during the Gulf War and it was not until March 2000 that it was reported serviceable. From mid-November 2000, numerous press reports began circulating claiming that the IPC pipeline was being used to ship Iraqi oil to Syrian refineries on favorable terms, allowing Iraq to obtain oil revenues above the limits set by the United Nation's oil-for-food program. Iraq and Syria denied the allegations, but according to the US Department of Energy (DOE), independent analysts determined that Syria's export levels of crude oil in 2001 could not have been attained without importing from Iraq in the range of 150,000 and 200,000 bbl/d. In November 2001 Iraq and Syrian reportedly signed an agreement on building a new, \$200 million pipeline to replace the aging IPC line. In April, 2003, as part of the invasion of Iraq, American troops shut down the IPC pipeline. The cost to Syria of the shutdown was estimated at \$500 million to \$1 billion a year.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Syria's gross domestic product (GDP) was estimated at \$54.2 billion. The per capita GDP was estimated at \$3,200. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2001 was 0.3%. 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 27% of GDP, industry 23%, and services 50%. Foreign aid receipts amounted to about \$9 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 \$481. 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 1%.

## 21 LABOR

The Syrian labor force is well educated and well trained in comparison with those of other Arab countries, but its size is small because about half the population is under 15 years of age and because many skilled workers are employed abroad in OPEC member nations. It has been estimated that 4.7 million persons were employed in 1998. As of 1996, 40% worked in agriculture, 40% in services, and 20% in industry. There is a high level of underemployment, and unemployment was last officially reported at 20% in 2000. Many unskilled persons in agriculture and industry work only seasonally. The government is attempting

to meet the demand for trained workers by establishing vocational schools.

The statutory workweek is 36 hours. In 2002, the minimum wage was \$57 per month in the public sector and between \$49 and \$53 per month in the private sector. The law mandates one day of rest per week. These regulations are enforced through the Minister of Labor and Social Affairs. Generally, the legal minimum age for employment is 16 years, with some exceptions. The Labor Law of 1959 established the right of workers to form unions and empowered the government to regulate hours of work, vacations, sick leave, health and safety measures, and workers' compensation. However, unions must belong to the government's bureaucratic labor confederation. The confederation acts merely as a conduit to transfer directives from government decision makers to unions and workers. Thus there is no meaningful right to strike or bargain collectively. The government also is authorized to arbitrate labor disputes.

## 22 AGRICULTURE

About 6.1 million hectares (15.1 million acres) are arable, but the area actually cultivated is about 5.5 million hectares (13.6 million acres), or 30% of the total area. Since only one-third of cultivated land is irrigated, agriculture depends on rainfall, which is uncertain, and in lean years Syria becomes a net importer of wheat and barley; this strains the whole economy and hampers development. The government has two approaches to this problem: to increase the use of fertilizers in low rainfall areas and to add substantially to irrigated cultivation. The irrigated area was expected to be doubled through the Euphrates Dam project, which was completed in 1978. Lake Assad, formed by the dam, was planned eventually to provide irrigation for some 640,000 hectares (1,581,000 acres). Costs of land reclamation, technical difficulties due to gypsum in the soil, and low water, in part caused by Turkish damming upstream, have slowed progress. Total irrigated area had reached an estimated 1,213,000 hectares (2,997,000 acres) in 1998. The government has allocated an increasing share of its investments to irrigation, but full development of irrigation schemes is expected to take at least another 20 years. However, given the current water management policies, Syria could face a serious water shortage much sooner.

Traditionally, much of Syria's agricultural land was held by landowners in tracts of more than 100 hectares (250 acres); sharecropping was customary. This picture was greatly altered by the government's agrarian reform program, begun in 1958. The law, as modified in 1963, fixed the maximum holding of irrigated land at 15–50 hectares (37–124 acres) per person and that of nonirrigated land at 80 hectares (198 acres) per person. All expropriated land available for cultivation has been allotted to farmers.

The principal cash crop is cotton, but cotton's share of total export value declined from 33% in 1974 to 3.3% by 2001. Other cash crops are cereals, vegetables, fruit, and tobacco. Since the government suspended convertibility of the Syrian pound, grain and other agricultural products have been smuggled to Lebanon in exchange for goods not available through the state importing agencies. Production (in thousands of tons) for major agricultural commodities in 1999 was: wheat, 2,691; barley, 424; corn, yellow, 125; tomatoes, 250; potatoes, 250; olives, 401; grapes, 452; apples, 273; oranges, 275; cotton lint, 305; sugar beets, 950; and tobacco, 20.

## 23 ANIMAL HUSBANDRY

Grazing land occupies 8.3 million hectares (20.5 million acres), or about 45% of Syria's total area. Stock raising contributes significantly to the Syrian economy. Between 1963 and 1981, livestock herds more than doubled in number, and since 1975 the number of model farms, veterinary units, and livestock artificial insemination centers has increased considerably.

Sheep are the most important livestock animals in Syria, grazing on poorly developed wheat and barley fields and on the remains of crops such as wheat and corn. In 2001 there were an estimated 12.4 million sheep. Mutton production was an estimated 169,000 tons in 2001; sheep milk production, 483,000 tons. The price of mutton of the Awassi breed, which is in high demand in Syria, was about 35% higher than beef in 1995.

There were also 1,979,000 goats, 837,000 head of cattle, 13,500 camels, 2,500 buffaloes, and 21,200,000 chickens in 2001. Animals and animal products account for 40% of total agricultural output by value. Production of cow's milk in 2001 totaled 1,032,000 tons; cheese, 91,900 tons; butter and ghee, 15,200 tons; and eggs, 133,500 tons.

## 24 FISHING

There is some fishing off the Mediterranean coast and from rivers and fish farms. The commercial catch was 6,572 tons in 2000, with common carp and tilapias from inland waters accounting for 20%.

## 25 FORESTRY

Syria is almost entirely denuded of native forests. Approximately 461,000 hectares (1,139,000 acres) were forestland in 2000, but only about 50,000 cu m (1.77 million cu ft) of roundwood were produced in 2000. Most of the designated forestland consists either of wholly barren land or of rangeland with arboreous shrubs. The substantial forests are mainly on the northern slopes of the Ansariyah range, on the windward side of the Anti-Lebanon Mountains, and in the Latakia region.

## 26 MINING

Syria's mineral resources were not extensive, but deposits of iron, petroleum, and phosphate have been exploited in recent years; Syria was the fifth-leading exporter of phosphate rock. Petroleum was the leading industry in 2002—the oil and gas industry accounted for nearly three-quarters of Syria's export earnings and more than one-third of its GDP—and phosphate rock mining was its sixth-leading industry. Production of phosphate rock (gross weight) was 2 million tons in 2001, down from 2.5 in 1998; 74% was exported, most to Europe. Other mineral deposits included asphalt, salt, chromite, and marble. Marble and salt were mined in commercial quantities, although no marble was produced in 2001. Output of salt totaled 106,000 tons. The country also produced hydraulic cement, refractory-grade dolomite, natural gas, natural gas liquids, gravel and crushed rock, gypsum, nitrogen, phosphatic fertilizers, phosphoric acid, construction and industrial sand, steel, dimension stone, sulfur, and volcanic tuff. No metal was mined in 2001, and no marble was produced. Deposits of silica sand in al-Qaristyn had resources of 150 million tons. The mineral industry was owned and controlled by the government. In 2001, the government announced its intentions to open the mineral industry to local and foreign private investors. The rapid expansion of the construction sector in the near future was expected to increase Syria's demand for cement, gypsum, limestone, gravel, sand, and steel.

## 27 ENERGY AND POWER

Oil in commercial quantities was first discovered in the late 1950s. In 1986, production of 2.5 million tons a year of low-sulphur crude from a new field near Deir ez-Zor in eastern Syria began lessening Syrian dependence on external sources. Total production steadily increased to 14.5 million tons in 1988 and 31.7 million tons in 1995. By 1994, Syria was exporting 57% of its oil output. Oil output peaked at 604,000 barrels per day in 1996. At that point it started to decline as reserves began to become depleted, and also due to technological problems. By 2001, production had declined to 527,000 barrels per day. The proven reserves of Syria's five oil fields, all located in the

northeastern part of the country, amounted to an estimated 2.5 billion barrels (400 million tons) of crude petroleum at the beginning of 2002. Oil output in recent years has reached a plateau, because older fields such as the Karatchuk (discovered in 1968) are reaching maturity. Production of oil is expected to steadily decline in upcoming years, and proven oil reserves are only expected to last until about 2010, while consumption increases as the population grows. As of 2000, however, it was estimated that only 36% of Syria's potential oil and gas deposits had been drilled.

Oil remains crucial to Syria's economy, accounting for about 60% of export earnings in 1999. A 663-km (412-mi) pipeline linking the oil fields, the coast at Tartus, and the refinery at Homs was completed in 1968. The pipeline, carrying Iraqi oil across Syria to Lebanon, was closed by Syria in April 1982, showing Syrian support for Iran in the Iraqi-Iranian war. Syria also refused to support Iraq during the 1991 Persian Gulf War, for which it was "rewarded" with billions of dollars in foreign aid. In 1998, Syria and Iraq signed an agreement to reopen the pipeline. In April, 2003, as part of the invasion of Iraq, American troops shut down the IPC pipeline. The cost to Syria of the shutdown was estimated at \$500 million to \$1 billion a year.

All oil concessions were granted exclusively in 1964 to the General Petroleum Authority, a government agency that owns the Homs refinery. In 1972, the pipelines and facilities in Syria of the Iraq Petroleum Co. were nationalized; the same year, Syria joined OAPC. During the early 1980s, the government-owned Syrian Petroleum Co. and three Syrian subsidiaries of US oil companies—Marathon, Shell, and Coastal States—were engaged in further oil exploration. Oil exploration has slowed in recent years; only four of the 14 companies present in Syria in 1991 remained there in 1999.

Syria's natural gas production, however, has increased ten-fold since the mid-1980s. Proven natural gas reserves were officially estimated at about 200 billion cu m in early 2002. Production in 1999 totaled 6 billion cu m. Syria's current energy strategy relies heavily on the substitution of natural gas for oil in power generation in order to free up as much oil as possible for export.

Prior to 1983, as much as 70% of the production of electricity was hydroelectric, primarily from the Euphrates River plant. Thermal production, primarily oil-fueled plants, supplied 64.5% of electricity production in 2000, while hydropower accounted for 35.5%. Total electricity production in 2000 was 21.7 billion kWh. Consumption of electricity in 2000 was 17.7 billion kWh. Installed capacity in 2001 was 4,745,000 kW, up from 3,230,000 kW in 1988. The addition of electricity supply capacity has become a national priority; since 1993 several contracts have been awarded for new gas turbine power stations. These include the 600 MW al-Zara oil and gas plant completed in 2000.

## 28 INDUSTRY

Syria has been renowned since ancient times for such handicrafts as Damascus brocade and Syrian soap. Some of these traditions endured even after 1933, when the first mechanized plant for spinning and weaving was set up in Aleppo. In 1965, the textile industry was nationalized and reorganized into 13 large state corporations. A series of nationalization measures after 1963 resulted in public control of most industry, but recent efforts have been made to stimulate the expansion of the private sector, as state-owned industries suffer from low productivity. In the 1970s, government policy began emphasizing domestic industrial production (coupled with high tariffs on imported consumer goods) of iron and steel, fertilizers, chemicals, and household appliances. In 1995, manufacturing and mining accounted for 14% of GDP. By 2000, this proportion had reached 23%. In 2002, the government announced that priority would be shifted from efforts to privatize the state-owned enterprises (SOEs) to continued efforts to increase their efficiency.

Important industries include the chemical and engineering industries, the food industry, and oil refining. The largest component of the General Establishment of Chemical Industries (GECI) is the cement industry, which is considered a strategic and is wholly state-owned. The General Organization for Cement and Building Materials consists of 7 state-owned but independently operated cement companies. The total capacity in 2001 was about 5 million tons per year, with government plans to increase this to 8 million tons per year. Another subsidiary of GECI is the General Fertilizer Company (GFC). It has two nitrogenous fertilizer plants and one phosphate-based unit, all located at Homs. Under construction in 2002 was a 500,000 ton/year triple-super-phosphate plant near Palmyra being built by Bechtel and Makad International. Also planned is a 450,000 nitrogenous complex near Hasaka to use natural gas from the Omar field in northeast Syria. Syria's fertilizer industry rests on its ample deposits of natural gas and phosphates, and produces ammonia, urea and nitrogenous fertilizers. Syria also has an iron-rolling mill at Homs and factories producing furniture, refrigerators, paper, glass and plastic products, and television sets. Some 70,000 tons of crude steel were produced in 1995. Syria has a total refinery capacity of 239,860 barrels per day from two refineries: a 132,725 barrels per day capacity refinery at Banias and a 107,140 barrels per day capacity refinery at Homs. Plans to upgrade both have been announced.

### 29 SCIENCE AND TECHNOLOGY

Courses in basic and applied science are offered at Al-Baath University (founded in 1979 at Homs), the University of Aleppo (founded in 1960), the University of Damascus (founded in 1903), and Tishreen University (founded in 1971 at Lattakia). In 1987-97, science and engineering students accounted for 23% of college and university enrollments. Major scientific research institutions in Syria include the International Center for Agricultural Research in the Dry Areas (ICARDA), founded in 1977 at Aleppo and the Arab Center for the Study of Arid Zones and Dry Lands (ACSAD), founded in 1971 at Damascus. The country's advanced petrochemical technologies have been installed by foreign oil companies. In early 1987, an estimated 2,500 Soviet military technicians were stationed in Syria; civilian personnel also provided assistance in various fields.

### 30 DOMESTIC TRADE

Damascus and Aleppo are the principal commercial centers. Virtually all importers, exporters, and wholesalers have offices in one or both cities. The chief retail centers have general and specialized stores as well as large bazaars. Smaller bazaars and open markets are found in many Syrian towns and villages. Advertising agencies use newspapers, magazines, moving picture theaters, signs on buses, and other media.

The Syrian government cracked down on smuggling in May 1993. Most of the previously smuggled commodities can now be imported through official channels. Commodity smuggling from Lebanon, however, is still present and provides an "unofficial market" for imported products at the free market exchange rate reflective of world price levels.

Usual business hours are from 9 AM to 1 PM and from 3:30 PM to 7 PM. Friday is the weekly day of rest. Banking hours are Saturday-Thursday, 8 AM to 2 PM.

The Damascus International Fair and the Syrian Industrial Marketing Fair are annual events.

### 31 FOREIGN TRADE

During the 1980s, Syria focused on increasing its trade with socialist nations. However, when the Soviet Union broke apart in 1991, Syria increased trade with European nations. In 2000, the EU countries took 66% of exports and supplied 31% of imports, while countries of the Middle East took 28% of exports and

supplied 14% of imports. Syria's main export commodities are crude petroleum (69%) and refined petroleum products (7.0%). Other exports include cotton (4.3%), vegetables (2.9%), garments (2.8%), and fruits and nuts (2.0%).

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

Consumer goods	2.7%
Food	12.9%
Fuels	3.7%
Industrial supplies	51.7%
Machinery	14.0%
Transportation	7.5%
Other	7.5%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Italy	1,484	237	1,247
France	1,045	180	865
Turkey	482	191	291
Saudi Arabia	272	160	112
Lebanon	189	n.a.	n.a.
Spain	180	83	97
Germany	137	258	-121
United States	49	258	-209
Ukraine	n.a.	236	n.a.
China (inc. Hong Kong)	n.a.	204	n.a.

### 32 BALANCE OF PAYMENTS

Syria had serious deficits in its trade balance since 1976, but import restrictions, foreign aid (especially from other Arab governments), and drawdown of foreign exchange holdings enabled the government to cover the losses. Since the late 1980s, the government has been encouraging private sector trade. Private sector exports consequently skyrocketed from \$79 million in 1987 to \$517 million in 1990, thus reducing the trade deficit. An upturn in world oil prices at the end of the 1990s and into the early 2000s and an improvement in the country's agricultural exports greatly improved the balance of payments situation.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Syria's exports was \$5 billion while imports totaled \$4 billion resulting in a trade surplus of \$1 billion.

The International Monetary Fund (IMF) reports that in 2000 Syria had exports of goods totaling \$5.15 billion and imports totaling \$3.7 billion. The services credit totaled \$1.7 billion and debit \$1.67 billion. The following table summarizes Syria's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>1,062</b>
Balance on goods	1,423
Balance on services	33
Balance on income	-879
Current transfers	485
<b>Capital Account</b>	<b>63</b>
<b>Financial Account</b>	<b>-392</b>
Direct investment abroad	270
Direct investment in Syria	...
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	1,049
Other investment liabilities	-1,711
<b>Net Errors and Omissions</b>	<b>-192</b>
<b>Reserves and Related Items</b>	<b>-541</b>

### 33 BANKING AND SECURITIES

Syria's financial services sector is underdeveloped. Besides the Central Bank, there are five banks in the country, all of which are state-run. The Central Bank, founded in 1956, is the bank of issue for currency, the financial agent of the government, and the cashier for the treasury. The Agricultural Bank makes loans to farmers at low interest; the Industrial Bank (nationalized in 1961), the People's Credit Bank and the Real Estate Bank (both founded in 1966), and the Commercial Bank of Syria (formed in 1967 by a merger of five nationalized commercial banks) make loans in their defined sectors. Unused Syrian pounds cannot be sold back to the Commercial Bank and the private exchange of foreign currencies and Syrian pounds is a criminal act. These strict currency controls are the largest disincentives to investment and foreign trade. So decrepit is the country's financial services sector that most Syrian businessmen and foreigners use banks in either Lebanon or Cyprus. Foreign diplomats in Damascus, for instance, use accounts in the Chtaura, in Lebanon's Beqaa valley, around one hour by car from Damascus.

Private sector groups have called for reforms such as private participation in banking, the creation of a stock exchange, and separation of the Central Bank of Syria from the government. Privatization of banks, which had been prohibited for 30 years, arrived in 2001 with new banking reform laws. The country's four banks are all owned by the government and interest rates are fixed by law. In March 2001 President Bashir issued Law 28 authorizing the establishment of private and joint venture banks, with foreigners permitted up to 49% ownership. To date none has been established but in January 2003 the government identified five banks to be licensed in the third quarter.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$37.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$62.0 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5%.

### 34 INSURANCE

All insurance in Syria was nationalized in 1963 and is controlled by the government-owned General Insurance Organization of Syria (formerly the Syrian Insurance Co.). Motor vehicle insurance is compulsory. In 1999, 337.2 million dollars of premium was written in Syria. Twenty-two million was spent on these premiums, making the insurance sector's share of the Gross Domestic Product .40%.

### 35 PUBLIC FINANCE

Although Syria was able to balance its budget in 1992, large military expenditures and continued subsidization of basic commodities and social services have produced deficits in subsequent years. State intervention in business and price controls put a damper on growth.

The US Central Intelligence Agency (CIA) estimates that in 2001 Syria's central government took in revenues of approximately \$5 billion and had expenditures of \$7 billion. Overall, the government registered a deficit of approximately \$2 billion. External debt totaled \$22 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%	5,000
Non-tax revenue	27.2%	1,360
Tax revenue	72.8%	3,639
Capital revenue	<0.1%	1
EXPENDITURES	100.0%	7,000
General public services	3.7%	262
Defense	23.6%	1,655
Education	9.2%	645
Health	2.3%	164
Social security	5.3%	372
Housing and community amenities	1.0%	70
Recreation, cultural, and religious affairs	1.5%	108
Economic affairs and services	44.0%	3,083
Other expenditures	9.2%	641

### 36 TAXATION

Relatively low salaries have kept the tax base narrow, and price controls have restricted the taxable profits from industry. By decree in 2001, the president raised the minimum exemption for income taxes to 1000 Syrian pounds (about \$22). There are taxes on individual income (at progressive rates 5% to 12.5%) and business profits (at progressive rates 10 to 45%). Shareholding companies and industrial limited liability companies are taxed at a flat rate of 32% and 42% respectively. For Syrian residents, income from movable capital—interest, royalties, and foreign sources of dividends—are taxed at a flat rate of 7.5%; for nonresidents, the rate is 15% unless reduced by an applicable tax treaty. There is no general sales tax, but taxes are assessed on specific items like petrol, rice and sugar.

### 37 CUSTOMS AND DUTIES

Goods imported into Syria are subject to a customs duty and "unified" tax. Rates are progressive and, as of 2002, range from 1% to 250% depending on the government's view of the necessity for the products. Food and industrial raw materials carry low rates while luxury goods, such as automobiles, have rates of 150–250%. The unified tax is a surcharge on all imported goods and ranges from 6% to 35%. The tax helps to support the military, schools, and municipalities.

Syria has free trade agreements with Bahrain, Kuwait, Iraq, Jordan, Lebanon, Qatar, Sudan, Sa'udi Arabia, and the United Arab Emirates. Trade agreements with Libya, Morocco, Oman, and Tunisia are in negotiations. There is a single-column tariff modified by trade and transit agreements with other Arab League states, under which member countries are granted preferential duties on some products and duty-free entry for others. Syria accepts the Arab League boycott of Israel.

### 38 FOREIGN INVESTMENT

Although a government decree prohibits confiscation of foreign investments, there are no safeguards against nationalization of property. In principle the judicial system upholds the obligations of contracts but in practice decisions are subject to outside pressures. In addition, poor infrastructure, power outages, lack of financial services, and complex foreign exchange regulations have all contributed to Syria's failure to attract significant amounts of foreign investment. Four major pieces of legislation have been passed to encourage foreign investment. Decision 186 issued in 1985 was aimed at encouraging investment in tourism. Decree 10 in 1986 was designed to encourage joint-venture agricultural companies. In June 1991, in the wake of the Gulf War, the government issued Investment Law 10 aimed at promoting investment in all sectors of the economy by providing the same incentives to local and foreign investors. Qualifying investors are granted tax holidays and duty-free privileges for the import of capital goods. The law succeeded in attracting investments particularly in textiles, pharmaceuticals, food-processing, and other light industries. The primary investors have been from the



Gulf states. In 1999 it was estimated that nearly 1,500 projects valued at \$6.5 billion had been approved since the reforms of 1991. In May 2000, Decree 7 amended Law 10 of 1991 to make investment more attractive by extending tax holiday periods, increasing hard currency flexibility, reducing income taxes on shareholding companies, and offering sector and regional incentives. A tax holiday of five years is extended to seven years for enterprises that export over 51% of their output.

The most significant foreign investment in Syria had been in gas and oil. In 1990, twelve foreign oil firms had operations in Syria but as of mid-2002, only five remained—Shell, Total-Fina-Elf, Mol (Hungary), INA-Naftaplin (Croatia) and Conoco. Other foreign investors include Mitsubishi, Samsung, Mobil, Nestle, and Prince Walid Bin Talal of Saudi Arabia. Foreign investment is complicated by Syrian requirements of import and export licenses on every item imported and then reexported, no matter the value, and with US sanctions on supplying Syria any “dual” use items such as computers, oil exploration equipment. Despite a recent 20% increase, the average wage in the public sector remains below minimum subsistence levels, and provides a strong motivation for widespread corruption. In 2002, also, an increasingly strict enforcement of the Arab League’s boycott of Israeli goods adds more complications to obtaining supplies and more layers of red tape. US government insurance programs for foreign investors, such as OPIC, are not available for investors in Syria, and the country is on the State Department’s list of Sponsors of Terrorism. USAID ended assistance to Syria in 1983, and financing cannot be obtained through government agencies like the Export-Import Bank. There are six duty free zones in Syria: near the border town of Dar’a (a joint venture with Jordan), north of Damascus at Adra, in Damascus, at the Damascus Airport, and at the ports of Latakia and Tartus. According to official estimates, there were 350 foreign and joint-venture investment projects in the country as of 2002, with a total value of about \$3 billion.

### 39 ECONOMIC DEVELOPMENT

The transformation of Syria’s economy began with the Agrarian Reform Law in 1958, which called for the expropriation of large tracts of land. During the union with Egypt, laws were passed for the nationalization of banks, insurance companies, and large industrial firms. After the Ba’ath Party came to power in 1963, the socialist trend reasserted itself with greater force. A series of laws created a new banking system and instituted public ownership of all large industries. By the early 1970s, however, the government had relaxed many restrictions on trade, foreign investment, and private-sector activity, in an effort to attract private and foreign, especially Arab, contributions to Syria’s economic growth.

Since 1961, a series of five-year plans has concentrated on developing the nation’s infrastructure and increasing agricultural and industrial production. Investments reached 60% of the target under the first plan (1961–65); the second plan (1966–70) aimed to expand real GDP by 7.2% annually but achieved a yearly growth rate of only 4.7%. The third plan (1971–75) was disrupted by the 1973 Arab-Israeli war, but thanks to aid from other Arab states and large oil price increases, Syria experienced an economic boom with a high annual growth rate of 13%. The fourth plan (1976–80) was hampered by the high cost of Syria’s military intervention in Lebanon and a cutoff of aid from Gulf states; economic growth varied widely, from 2.8% in 1977 to 9.2% in 1980.

Under the fifth plan (1981–85), development projects begun during the previous plan were to be continued or completed. Total investment was estimated at \$101 billion, of which 23% was to be provided by the private sector. Real GDP was to grow by 7.7% annually; actual growth rates ranged from 10.2% in 1981 to 3.6% in 1984, averaging 2.3% for the period.

Syria’s sixth development plan (1986–90) emphasized increased productivity rather than new projects, with special emphasis on agriculture and agro-industries. Actual investment in agriculture accounted for 18.7% of total spending. The share of the industry and energy sector was at 19.7%, far below the planned 30.9%. Services received the highest share, with 53% of the total.

The seventh five-year plan (1991–95) proposed total investments of \$259 billion, more than double the amount spent under the previous plan. It aims at spending 81.7% of the total on the public sector and 18.3% on the mixed sector/private-sector cooperatives. Officials at the Supreme Planning Commission have stated that agriculture and irrigation continue to receive top priority, with self-sufficiency in cereal production a policy objective. Output in agriculture and manufacturing is planned to expand by 5.6% per annum.

During 1949–86, multilateral assistance to Syria totaled \$822.7 million, of which 77% came through the IBRD. US loans and grants during the same period amounted to \$581.9 million. Financial aid to Syria from Arab oil-producing states is not made public. Since 1982, Syria has received a million tons of oil annually from Iran, free of charge. Since Syria is in arrears on payments to the World Bank, disbursements were halted in 1988 and projects canceled. Syria has been in violation of the Brooke Amendment since 1985. The improvement in Syria’s external payment position in 1989 as well as the resumption of aid flows to Syria in 1990 due to its participation in the coalition against Iraq helped to restore its ability to repay its debt.

### 40 SOCIAL DEVELOPMENT

The Ministry for Social and Labor Affairs was formed in 1956 to protect the interests of the working population, provide hygienic housing conditions for workers, and support philanthropic endeavors. A system of social insurance provides old age pensions and disability and death benefits. The pension system is funded by 14% contributions from employers and 7% from employees. Retirement is set at age 60 with 180 months of contributions, or age 55 with 240 months. Survivors’ pensions are paid to widows only; widowers are covered only if disabled. Employers also contribute 3% of payroll to fund workers’ compensation providing temporary and permanent disability benefits, as well as medical and survivor benefits.

Although the government supports equal pay for equal work and encourages education for women, Islamic precepts govern many areas of women’s lives, including marriage, divorce, child custody, and inheritance. Women are making slow gains in the workplace. Victims of domestic violence do not seek redress due to social stigma.

The human rights situation is poor and fundamental rights are denied. Arbitrary arrest and incommunicado detention are common. Detainee’s relatives are also arrested to force confessions. Torture is common. Public criticism of the Ba’ath Party or of government officials is not permitted. Local human rights organizations are banned, although one international organization was allowed to conduct a limited fact-finding mission.

### 41 HEALTH

In 1947, Syria had only 37 hospitals, with a total of 1,834 beds, but by 1985, the number of hospitals had increased to 195, with 11,891 beds. As of 1999, there were an estimated 1.3 physicians and 1.4 hospital beds per 1,000 people. The government also maintains mobile hospital units, modern laboratories, X-ray centers, sanatoriums, and dispensaries. In 1991, there were 10,114 physicians, 3,362 dentists, 3,634 pharmacists, and 11,957 nurses. In 1990–97, was a nurse to doctor ratio of 1:2. The population per nursing professional in 1993 was 1:159. In 1993, about 99% of the population had access to health care

services. As of 1999, total health care expenditure was estimated at 2.5% of GDP.

Since World War II, malaria has been virtually eliminated with the aid of the World Health Organization, but intestinal and respiratory diseases associated with poor living conditions are still common, particularly in rural areas. In 1995, there were 185 cases of leprosy and 1,235 cases of measles reported; in 1993 there were 961 cases of malaria. In 1999, there were an estimated 85 cases of tuberculosis per 100,000 reported. In 2000, 80% of the population had access to safe drinking water and 90% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 30.1 and 5.1 per 1,000 people. About 45% of married women (ages 15 to 49) used contraception in 2000. In the same year, the infant mortality rate was 24 per 1,000 live births. In 1998, maternal mortality was 110 per 100,000 live births. Average life expectancy was 70 years for both men and women. Immunization rates for children up to one year old in 1995 were tuberculosis, 100%; diphtheria, pertussis, and tetanus, 100%; polio, 100%; and measles, 98%. Rates for DPT and measles as of 1999 were, respectively, 94% and 97%.

Tobacco consumption rose from 3.3 kg (7.3 lbs) in 1984–86 to 3.4 kg (7.5 lbs) a year per adult in 1995. There were 36 cases of AIDS in 1996, with an HIV prevalence rate of 0.0 per 100 adults in 1999.

## 42 HOUSING

The 1981–85 development plan allocated \$2.6 billion to construction projects, including housing. According to the latest available information for 1980–88, total housing units numbered 1,670,000 with 6.4 people per dwelling.

## 43 EDUCATION

Elementary schooling is free and compulsory for six years. The adult illiteracy rates for the year 2000 were estimated at 25.6% (males, 11.7%; females, 39.6%). The school program starts with a primary course, after which the student may obtain an elementary-school certificate. In 1997 there were 2,690,205 primary-school pupils with 114,689 teachers in 10,783 schools. Student-to-teacher ratio stood at 23 to 1. At the secondary level in the same year, there were 957,664 students and 64,661 teachers. As of 1999, 92% of primary-school-age children were enrolled in school, while 38% of those eligible attended secondary school. Syria has four universities: the University of Damascus (founded in 1923); the University of Aleppo (1960); Tishrin University (Latakia, 1971); and Al-Ba'ath University in Homs (1979). In 1995, all higher-level institutions had a total of 4,733 teachers and 215,734 students. As of 1999, public expenditure on education was estimated at 2.8% of GDP.

## 44 LIBRARIES AND MUSEUMS

The Assad National Library founded in 1984 in Damascus and an adjunct of the Arab Academy, has 262,000 volumes and is well known for rare books and manuscripts. There are three other national libraries, located in Aleppo, Homs, and Latakia. The library of the University of Damascus has 169,000 volumes. The Al Zahiriah public library in Damascus has 100,000 volumes.

The most important museum is the National Museum in Damascus, founded in 1919. It contains ancient Oriental, Greek, Roman, Byzantine, and Islamic collections and houses the Directorate-General of Antiquities, established in 1947, which supervises excavations and conserves antiquities under the Antiquities Law. There are small museums in Aleppo, Hama, Homs, Palmyra, Tartos, and other cities.

## 45 MEDIA

All communications facilities are owned and operated by the government, including postal service, telegraph, telephone, radio, and television. There were 1.3 million main telephone lines in use in 1997. cellular service was introduced in the country in 2000, but the cost has limited the number of subscribers to about two of every 1,000 people.

The Syrian Broadcasting Service transmits on medium wave and shortwave, and broadcasts in Arabic and 10 foreign languages. Syrian Arab TV has two stations. Altogether, there were 9 AM and 1 FM radio station in 1999, and 54 television stations. In 2000, Syria had 276 radios and 67 television sets in per 1,000 population. In 2001, there were 32,000 Internet subscribers served by one government-controlled and limited service provider.

Most Syrian newspapers are published by government ministries and popular organizations. Principal dailies in Arabic (with 2002 circulations) include *Al-Ba'ath* (40,000), published by the Ba'ath Arab Socialist Party; *Tishrin* (50,000), and *Al-Thawrah* (40,000), all in Damascus. In 2000, the government authorized publication of the first private paper since 1963. That paper, *The People's Voice*, is published by the National Progressive Front (Communist Party). The Union Socialist Party has since published its own paper, *The Unionist*. A private satirical paper, *The Lamplighter*, has also been allowed, but has maintained content which is, for the most part, politically nonsensitive.

Though the constitution provides for free expression of opinion in speech and writing, in practice the government is reported to restrict these rights significantly. Written criticism of the president, the president's family, the Ba'ath party, the military, and the regime are not permitted.

## 46 ORGANIZATIONS

Syria has chambers of commerce, industry, and agriculture, most of which are members of the Federation of Syrian Chambers of Commerce. The International Center for Agricultural Research in the Dry Areas is based in Aleppo. Other multinational groups based in Syria include the Arab Institute for Occupational Health and Safety and the Arab Inter-Parliamentary Union. The cooperative movement is well developed.

The most prominent organizations are the Arab Academy and the Arab Club, both in Damascus. The General Women's Federation was established in 1967 as one of several organizations through which the Ba'ath Party has tried to mobilize popular energies and consolidate its control. Analogous groups include the General Union of Peasants, the General Federation of Trade Unions, the General Union of Students, and the Revolutionary Youth Organization. The Red Crescent Society is active.

## 47 TOURISM, TRAVEL, AND RECREATION

Syria has many famous tourist attractions, such as the Krak des Chevaliers, a Crusaders' castle; Ra's Shamrah, site of the ancient city of Ugarit; Ar-Rusafah, with its early Christian monuments and a Muslim palace; and the ancient town of Dura Europus (now As-Salihyah). Palmyra, the capital of Queen Zenobia, is a fairly well preserved ruin of an Arabo-Hellenic city. The Umayyad Mosque, which incorporates parts of the Byzantine Cathedral of St. John the Baptist, in Damascus, is popular. Syria's mountains and Mediterranean beaches also attract visitors.

Passports, visas, and smallpox vaccinations are required of visitors. In 2000, there were 3,014,758 visitor arrivals, mostly from neighboring Middle Eastern countries, and tourist expenditures totaled \$1 billion. As of that year, Syria had 15,461 hotel rooms with 34,209 bed-places, and the hotel occupancy rate was 23%.

According to 2002 US government estimates, the cost of staying in Damascus was \$218 per day.

#### 48 FAMOUS SYRIANS

Among famous Syrians of an earlier period are Queen Zenobia of Palmyra (3d century AD), who led a series of military campaigns against the Romans in order to reopen trade routes; the philosopher Al-Farabi (Muhammad bin Muhammad bin Tarkhan abu Nasr al-Farabi, 872–950), considered by the Arab world as second only to Aristotle; the poet Al-Mutanabbi (Abu at-Tayyib Ahmad bin al-Husayn al-Mutanabbi, 915–65); the mystic-philosopher Shihab ad-Din as-Suhrawardi (d.1191); and the theologian-philosopher Taqi ad-Din Ahmad bin Taymiyah (1263–1328).

Of the Umayyad caliphs, Umar bin 'Abd-al-'Aziz (r.717–20) is still revered as a restorer of true Islam. In a later era, Nureddin (Nur ad-Din, 1118–74), ruler of Aleppo, annexed Damascus and brought Egypt under his control. By unifying Muslim forces against the Crusaders, he made possible the victories of the renowned Saladin (Salah ad-Din, 1138–93), sultan of both Syria and Egypt, whose tomb is in Damascus. Hafez al-Assad (Hafiz al-Assad, 1928–2000) ruled Syria from 1970–2000.

#### 49 DEPENDENCIES

Syria has no territories or colonies.

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# TAIWAN

Republic of China  
*Chung Hwa Min Kuo*

**CAPITAL:** T'aipei

**FLAG:** The flag is red with a 12-pointed white sun on the blue upper left quadrant. The 12 points of the sun represent the 12 two-hour periods of the day in Chinese tradition, and symbolize progress. The colors red, white, and blue represent the Three Principles of the people (San Min Chu I) of Sun Yat-sen, father of the Republic of China, and symbolize the spirit of liberty, fraternity, and equality.

**ANTHEM:** *Chung Hwa Min Kuo Kuo Ke (Chinese National Anthem).*

**MONETARY UNIT:** The new Taiwan dollar (NT\$) is a paper currency of 100 cents. There are coins of 50 cents and 1, 5, and 10 dollars, and notes of 50, 100, 500, and 1,000 new Taiwan dollars. NT\$1 = US\$0.0289 (or US\$1 = NT\$34.60) as of 2002.

**WEIGHTS AND MEASURES:** The metric system is employed in government and industrial statistics. Commonly used standards of weights and measures are the catty (1.1 lb or 0.4989 kilograms), the li (0.5 kilometers or 0.31 miles), the ch'ih (0.33 meters or 1.09 feet), and the chia (0.97 hectare or 2.39 acres).

**HOLIDAYS:** New Year's Day and the Founding of the Republic of China (1912), 1 January; Youth Day (formerly known as Martyrs' Day), 29 March; Tomb-Sweeping Day and Anniversary of the Death of Chiang Kai-shek, 5 April; Birthday of Confucius and Teachers' Day, 28 September; National Day (Double Tenth Day), 10 October; Taiwan Retrocession Day, 25 October; Chiang Kai-shek's Birthday, 31 October; Sun Yat-sen's Birthday, 12 November; Constitution Day, 25 December.

**TIME:** 8 PM = noon GMT.

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

Taiwan, the seat of the Republic of China, lies in the western Pacific Ocean astride the Tropic of Cancer, less than 161 km (100 mi) from the southeast coast of mainland China, from which it is separated by the Taiwan (Formosa) Strait. To the NE, less than 129 km (80 mi) away, is the W end of the Japanese Ryukyu Islands; to the E is the Pacific Ocean; the Philippine island of Luzon lies 370 km (230 mi) to the S.

Besides the island proper, Taiwan comprises 21 small islands in the Taiwan group and 64 islands in the Penghu (Pescadores) group; the total area is 35,980 sq km (13,892 sq mi). Comparatively, the area occupied by Taiwan is slightly larger than the states of Maryland and Delaware combined. Leaf-shaped Taiwan island extends 394 km (245 mi) NNE–SSW and 144 km (89 mi) ESE–WNW; it has a coastline of 1,566 km (973 mi). The Penghu group, lying 40 km (25 mi) west of Taiwan island, has a total area of 127 sq km (49 sq mi).

Also under the control of the Taiwan government are Quemoy (Chinmen) and Matsu, two island groups located strategically close to the mainland Chinese province of Fujian (Fukien). Quemoy is the biggest of a group of six islands, two of which are occupied by the People's Republic of China; it is situated in Xiamen (Amoy) Bay at 118°23'E and 24°27'N and has a total area of 176 sq km (68 sq mi). The Matsu group, consisting of Nankan (the largest), Peikan, Tungyin, and about 10 small islets, is located at 119°56'E and 26°9'N, 30.6 km (19 mi) off the mainland port city of Fuzhou; it has a total area of 28.8 sq km (11.1 sq mi).

The capital city of T'aipei is located on northern Taiwan.

## <sup>2</sup>TOPOGRAPHY

Taiwan perches on the margin of the continental shelf. Along the west coast the sea is rather shallow, averaging 90 m (300 ft) and not exceeding 210 m (690 ft) at the deepest point; however, it

deepens abruptly along the east coast, dropping to a depth of 4,000 m (13,000 ft) only 50 km (31 mi) offshore. The terrain is precipitous on the east coast, with practically no natural harbor except Suao Bay in the north. The west coast is marked by wide tidal flats. Kaohsiung, the southern port, is situated in a long lagoon called Haochiung Bay. The north coast with its many inlets provides Taiwan with its best harbor, Chilung (Keelung).

The eastern two-thirds of the island is composed of rugged foothill ranges and massive mountain chains. A low, flat coastal plain, extending from north to south, occupies the western third. Yü Shan, with an elevation of 3,997 m (13,113 ft), is the highest peak on the island. Mild earthquake tremors are common.

All the rivers originate in the mountains in the central part of the island. They have short courses and rapid streams. The longest river, Choshui, draining westward, is only 190 km (118 mi) long. Only the Tanshui, which flows past T'aipei in the north, is navigable.

## <sup>3</sup>CLIMATE

Taiwan enjoys an oceanic, subtropical monsoon climate. The warm and humid summer lasts from May until September, the mild winter from December until February. The average lowland temperature in January is 16°C (61°F) in the north and 20°C (68°F) in the south; the average July temperature is 28°C (82°F) in both the north and south. The growing season lasts throughout the year, except at elevations above 1,200 m (4,000 ft), where frost and snow occasionally occur.

The average rainfall is 257 cm (101 in), ranging from 127 cm (50 in) at the middle of the western coast to 635 cm (250 in) and more on exposed mountain slopes. Southwest monsoon winds blow from May through September and northeast monsoon winds from October to March. Only the extreme southwest has a distinct dry season. As a result of the tropical cyclonic storms that

sweep out of the western Pacific, typhoons occur between June and October.

#### 4 FLORA AND FAUNA

The flora is closely related to that of southern China and the Philippines. Taiwan has almost 190 plant families, about 1,180 genera, and more than 3,800 species, of which indigenous members constitute about one-third of the total flora. Mangrove forest is found in tidal flats and coastal bays. From sea level to a height of 2,000 m (6,600 ft) is the zone of broad-leaved evergreen tropical and subtropical forest, where ficus, pandanus, palms, teak, bamboos, and camphors are commonly found. The mixed forest of broad-leaved deciduous trees and conifers occupies the next zone, extending from a height of 2,000 to 3,000 m (6,600–9,800 ft). Pines, cypresses, firs, and rhododendrons are grown in this region. Above this level is the zone of coniferous forests, composed mainly of firs, spruce, juniper, and hemlock.

The mammals so far discovered number more than 60 species, 45 of which appear to be indigenous to the island. The largest beast of prey is the Formosan black bear. Foxes, flying foxes, deer, wild boar, bats, squirrels, macaques, and pangolins are some of the mammals seen on the island. There are more than 330 species and subspecies of birds, of which 33 are common to the island, China, and the Philippines, and about 87 are peculiar forms. More than 65 species of reptiles and amphibians inhabit the island. There is an abundance of snakes, of which 13 species are poisonous. The insect life is rich and varied.

#### 5 ENVIRONMENT

The Environmental Protection Agency (EPA) has the main responsibility for environmental policy. Water pollution from raw sewage and industrial effluents is a significant problem in Taiwan. Outside the larger hotels and urban centers, the water is likely to be impure. Health problems like hepatitis result from waterborne contaminants. Water quality is regulated under provisions of the sanitary drinking water legislation of 1972 and the 1974 Water Pollution Control Act.

Air pollution is another significant problem, complicated by a high pollen count. Solid waste disposal regulations and air quality standards were adopted in 1975. All factories are required to comply with established standards, the cost of installing antipollution devices being written off as a depreciable item over two years. Taiwan in 1978 adopted the safety procedures for nuclear facilities issued by the IAEA. In the mid-1980s, the government began tightening emission standards for automobiles and ordered many factories and power plants to install filters and dust collectors. The EPA announced plans in 1987 to install an island-wide pollution-monitoring system.

Wildlife management is the responsibility of the National Wildlife Protection Association of the Republic of China. The nation's marine life is threatened by the use of driftnets. Endangered species include the Formosan sika, hawksbill turtle, Oriental white stork, and Lan Yü scops owl. Trade in endangered species has been reported.

#### 6 POPULATION

The population of Taiwan in 2003 was estimated by the United Nations at 22,500,000, which placed it as number 48 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 21% of the population under 15 years of age. The projected population for the year 2005 is 23,325,000, assuming a crude birthrate of 14 per 1,000 population and a death rate of 6, resulting in a natural rate of change of 0.8% for the period 2000–2005. The population density in 2002 was 621 per sq km (1,608 per sq mi), one of the highest in the world. Approximately 90% of the inhabitants live west of the Central Range.

It was estimated that 75% of the population lived in urban areas in 2001. T'aipei, the capital and principal city, had a metropolitan population of 2,880,000 in 2001, followed by Kaohsiung, with 1,534,000. Other large cities include T'ainan (794,960), T'ainan (694,930), and Panch'iao (543,982).

#### 7 MIGRATION

In 1963, the Nationalist government stated that since the completion of the Communist conquest of the mainland in 1949/50, a total of 146,772 Chinese refugees had come to Taiwan for resettlement. The number of refugees has varied from year to year. There may be as many as 100,000 illegal immigrants.

In 1986, the Taiwan government reported that there were 28,714,000 overseas Chinese (25,799,000 in Asia, 2,044,000 in the Americas, 584,000 in Europe, 214,000 in Oceania, and 73,000 in Africa), including those with dual nationality.

The net migration rate in 2002 was an estimated -0.03 migrants per 1,000 population.

#### 8 ETHNIC GROUPS

The term "Taiwanese" is often used when referring to those Chinese who are natives of the island as distinct from the 2 million "mainlanders" who migrated from China after the end of World War II. Most of the more than 20 million inhabitants of Taiwan are descendants of earlier immigrants from Fujian and Guangdong (Kwangtung) provinces in South China. They form several distinct groups. The Hakka are descendants of refugees and exiles from Guangdong who came to Taiwan before the 19th century; they are farmers and woodsmen who occupy the frontiers of settlement. The more numerous Fujians are descendants of peasants from Fujian who migrated to Taiwan in the 18th and 19th centuries; they form the bulk of the agricultural population.

The aboriginal population is primarily of Indonesian origin. They live mainly in central and eastern Taiwan. They are mainly divided into nine major tribes, with the Ami, Atayal, Paiwan, and Bunun accounting for about 88%; the balance is mainly distributed among the Puyuma, Rukai, Saisiyat, Tsou, and Yami. The language and customs of the aborigines suggest a close resemblance to the Malays.

In 1999, Taiwanese constituted 84% of the population; mainland Chinese 14%; and aborigine 2%.

#### 9 LANGUAGES

Most people on Taiwan now speak Mandarin Chinese (Peking dialect). It is the official language and is used in administration, jurisprudence, education, and, to a large extent, in commerce; it has come into increasingly common use during the last three decades. The Wade-Giles system of romanization, which has been replaced on the mainland by the pinyin system, is still used in Taiwan.

Native Taiwanese speak a variety of southern Chinese dialects, but mainly Southern FuKienese. This is the native tongue of about 70% of the population. It has also influenced the vocabulary of Mandarin spoken on Taiwan. There is also a sizable population of Hakka speakers. This dialect is mainly spoken in Kwantung Province on the mainland. As a result of 50 years of Japanese rule, most Taiwanese and aborigines over the age of 60 speak or understand Japanese. Tribal peoples speak dialects of the Malay-Polynesian family which have no written script.

#### 10 RELIGIONS

The Chinese are traditionally eclectic in their religious beliefs. The Taiwan folk religion is a fluid mixture of shamanism, ancestor worship, magic, ghosts and spirits, and aspects of animism. These commonly overlap with an individual's belief in Buddhism, Confucianism, Taoism, or other traditional Chinese

religions. Natural phenomena have been deified, and ancestors, sages, virtuous women, and historical personalities have been given the status of gods. In 2002, observers estimated that about 80% of the population practiced some mixture of traditional Chinese folk religion in conjunction with Buddhism, Confucianism, and Taoism. About 24% of the population are nominally Buddhist and about 20% are Taoist. Only about 12,500 people practice Confucianism.

The first Westerners to bring Christianity to Taiwan were the Dutch (1624). However, a great persecution of Christians took place when the island was lost to Cheng Ch'eng-kung in 1662. Christianity made another beginning in 1860, when a missionary from Scotland came to the island. The English Presbyterian Mission started its work in the southern part of Taiwan about 100 years ago. Since the end of World War II, more than 80 Protestant denominations have been established on the island, and the activities of Christian missions, many coming over from the mainland, have become widespread. As of 2002, Christians constituted about 4% of the total population. Denominations represented include Roman Catholic, Presbyterians, Mormons, Baptists, Lutherans, Seventh-Day Adventists, Episcopalians, and Jehovah's Witnesses.

Other faiths include Tien Ti Chiao (Heaven Emperor Religion), Tien Te Chiao (Heaven Virtue Religion), Li-ism, Hsuan Yuan Chiao (Yellow Emperor Religion), Maitraya Great Tao, Chinese Holy Religion, Hai Tzu Tao (Innocent Child Religion), Tien Li Chiao (Heaven Reason Religion), the Baha'i Faith, Mahikari, and Judaism. About 14% of the population are atheists.

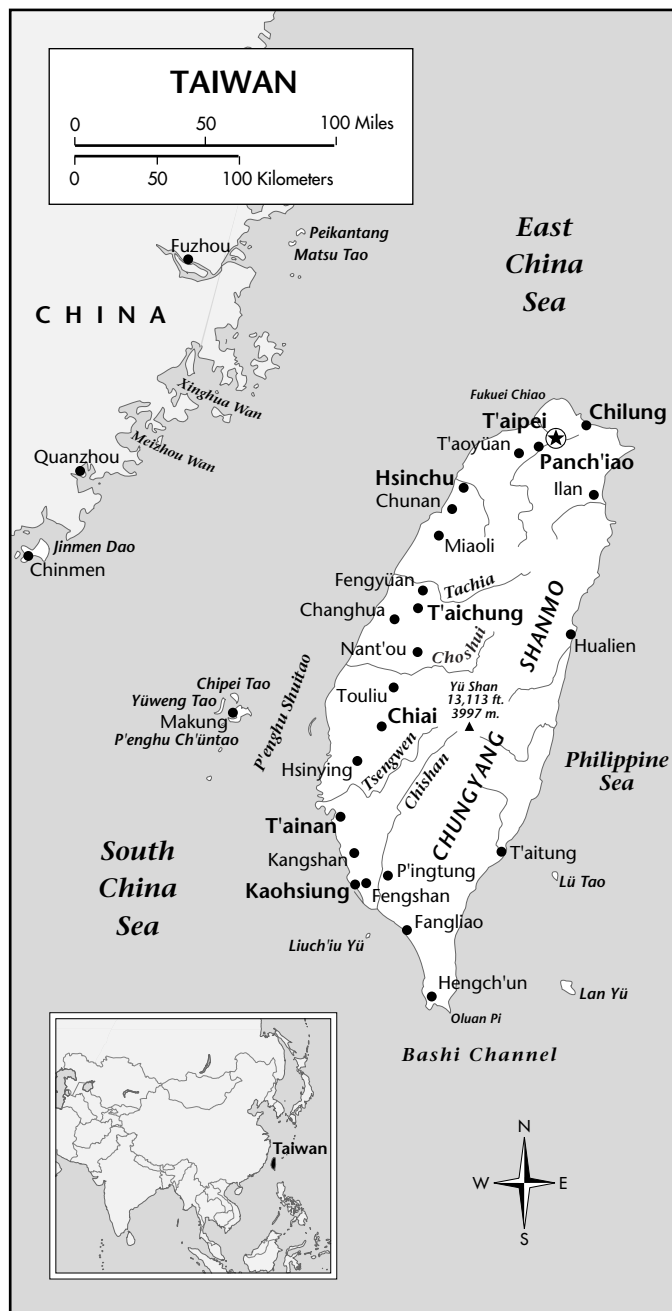
## 11 TRANSPORTATION

At last estimate, Taiwan had 1,108 km (688 mi) of railroad track in common carrier service, and several thousand kilometers of narrow gauge track dedicated to industrial use. The main trunk line, now electrified, links the main cities of the populous west coast between Chilung and Kaohsiung. A second trunk line, the North Link between T'aipei and Hualien on the east coast, was completed in 1979. It connects with an eastern line between Hualien and T'aitung, which was modernized in the early 1980s. Construction of the 98-km (61 mi) South Link (between T'aitung and P'ingtung) has been completed. Forming the last link in the round-the-island rail system, the South Link opened on 6 December 1991, taking over 11 years and \$770 million to complete. Construction of a US\$6.5 billion rapid-transit system was just starting in T'aipei in 1989.

As of 2002, Taiwan had an estimated 34,901 km (21,687 mi) of highways, of which 31,271 km (19,431 mi) were paved, including 538 km (334 mi) of expressways. By 2000 there were 5,548,726 registered motor vehicles, 4,716,217 of which are passenger cars.

Taiwan has five international seaports, all of them extensively modernized in the 1970s. Kaohsiung in the southwest is by far the largest, handling about two-thirds of all imports and exports. Other major ports are Chilung, on the north coast; Hualien and Suao, both on the east coast; and T'aichung, on the west coast. As of 2002, Taiwan's merchant marine consisted of 152 vessels totaling 4,262,451 GRT.

Also in 2001, there were 39 airports, of which 37 had paved runways. There are two international airports. The main one, opened in 1979, is Chiang Kai-shek International Airport, at T'aoyüan, southwest of T'aipei; the other serves Kaohsiung. T'aipei Airport handles only domestic flights. Regular domestic flights also reach Hualien, T'aitung, Chiai, T'ainan, and several other cities. Principal air service is provided by China Air Lines, Taiwan's international airline, and other international carriers, and by Taiwan's leading domestic airline, Far Eastern Air Transport.



LOCATION: 21°45' 25" to 25°56' 39" N; 119°18' 3" to 124°34' 30" E.  
TERRITORIAL SEA LIMIT: 12 miles.

## 12 HISTORY

Although Taiwan can be seen on a clear day from the China mainland, ancient Chinese accounts contain few references to the island. The earliest inhabitants were Malayo-Polynesian aborigines. Historians have surmised from the brief information available in the early dynastic histories that Chinese emigration to Taiwan began as early as the T'ang dynasty (618–907). During the reign of Kublai Khan (1263–94), the first civil administration was established in the neighboring Pescadores. Taiwan itself, however, remained outside the jurisdiction of the Mongol Empire. During the Ming dynasty (1368–1644), Japanese pirates and Chinese outlaws and refugees wrested the coastal areas from the native aborigines. The Chinese settled in the southwest

region, while the Japanese occupied the northern tip of the island. Significant Chinese settlement, by immigrants from Fujian and Guangdong, began in the 17th century.

In 1517, the Portuguese sighted the island and named it Ilha Formosa (Beautiful Island). The Dutch, who were disputing the monopoly of Far Eastern trade held by the Portuguese, captured the Pescadores in 1622 and used them as a base for harassing commerce between China, Japan, and the Philippines. Two years later, the Chinese offered the Dutch a treaty that gave them certain commercial privileges if they withdrew from the Pescadores and occupied instead a trading post on Taiwan. The Dutch complied by building Fort Zeelandia and Fort Providentia in the southwestern part of the island. The Spaniards, wishing to compete, seized the northern part of Chilung in 1626 and later extended their domain to nearby Tanshui. The Japanese, constrained by the policy of national seclusion adopted by the Tokugawa Shogunate, withdrew voluntarily in 1628. The Dutch captured the Spanish settlement in 1642 and, after putting down a Chinese uprising in 1656 with the aid of the aborigines, gained complete control of the island.

While the Dutch were consolidating their hold on Taiwan, the Ming dynasty on the China mainland was overthrown by the Manchus, who established the Qing (Ch'ing) dynasty (1644–1912). Remnants of the Ming forces, led by Zheng Chenggong (Cheng Ch'eng-kung Koxinga, 1624–62), son of a Chinese pirate and a Japanese mother, decided to establish an overseas base in Taiwan. They landed on the island in 1661 and ousted the Dutch in the following year. It was not until 1683 that the Manchus succeeded in wresting Taiwan from Zheng Chenggong's successors.

From 1683 to 1885, Taiwan was administered as a part of Fujian Province. During this period, Chinese colonization proceeded steadily, as the aborigines were either assimilated into the Chinese population or pushed back into the mountains. The imperial government, however, paid scant attention to the island administration. As a result, official corruption and inefficiency often provoked armed rebellions. In the latter part of the 19th century, the strategic importance of Taiwan for the defense of the South China coast was recognized by the authorities, particularly after the French bombardment and blockade of the island in 1884 during the Sino-French War over Annam. The local administration was reorganized, and the island was made into a separate province in 1885.

Upon the conclusion of the First Sino-Japanese War in 1895, Taiwan was ceded to Japan. Refusing to submit to Japanese rule, the islanders declared their independence and established a republic, although organized resistance against the Japanese lasted only a few months. Ineffective armed resistance, chiefly by aborigines, continued. Under the Japanese, the island's agricultural resources were developed rapidly to supply the needs of the home islands and the transportation infrastructure experienced modernization. A policy of Japanization of the Taiwan population was adopted and, by 1944, 71% of children attended primary school. During World War II, Japanese administrators began to orchestrate the island's industrialization in support of Japanese expansionism in south Asia.

In accordance with the Cairo Declaration of 1943 and the Potsdam Proclamation of 1945, Taiwan was restored to China in September 1945. The carpetbagging malpractices of the mainland Chinese officials, however, aroused the resentment of the local population. In February 1947, a police incident touched off a popular revolt, which was suppressed with bloodshed. In May, more troops were brought from the mainland and the Taiwanese leadership was systematically killed. Estimates of the dead range from 5,000 to 50,000. On 8 December 1949, as the Chinese Communists were sweeping the Nationalist armies off the mainland, the government of the Republic of China (ROC), led

by General Chiang Kai-shek (Jiang Jieshi), was officially transferred to Taiwan.

### The Republic of China

With the removal of the ROC government to Taiwan, two million mainland Chinese came to the island where they instituted an authoritarian rule under martial law. Initially Chiang Kai-shek remained myopically focused on retaking the mainland, but as the stalemate continued, the government gradually shifted its attention to industrializing Taiwan. Strong government policies contributed to steady economic progress, first in agriculture and then in industry. In the 1950s, with US aid and advice, the ROC undertook a successful program of land redistribution. Japan built an infrastructure; the Nationalists brought skills and capital; and the United States poured in excess of \$2 billion in aid by 1968. Furthermore, Japanese investment and procurement boom during the Vietnam War in the 1960s further stimulated economic growth.

In 1951, Japan signed the San Francisco Peace Treaty, thereby formally renouncing its claim to the island of Taiwan. In 1954, the ROC and the United States concluded a Mutual Defense Treaty and the United States and Western nations supported Taiwan possession of a UN Security Council seat, while the Eastern bloc nations supported the People's Republic of China (PRC). Support for Taiwan's representation gradually eroded over the years, and on 25 November 1971 the General Assembly voted 75–36 (with 17 abstentions) to remove recognition from the ROC and recognize the PRC. In a significant policy reversal, the United States voted with the majority to seat the mainland government. Although maintaining full diplomatic ties with Taiwan, the United States took the occasion of President Nixon's visit to China to acknowledge, in what became known as the Shanghai communiqué of February 1972, that "all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is part of China. The United States government does not challenge that position."

By 1975, most nations shifted recognition from the ROC to the PRC. On 1 January 1979, the United States formally recognized the PRC as the sole legal government of China and severed diplomatic ties with Taiwan. It also announced the unilateral termination of the 1954 US-ROC Mutual Defense Treaty, effective 1 January 1980, and withdrew its remaining military personnel. Nonetheless, the United States continued to sell arms to Taiwan, and commercial and cultural contacts were unofficially maintained through the American Institute in Taiwan and the Coordination Council for North American Affairs. Taiwan successfully warded off worldwide political and economic isolation by maintaining a host of similar contacts with other countries.

When President Chiang Kai-shek died at age 87 on 5 April 1975, he was succeeded in office by former Vice-President Yen Chia-kan (Yan Jiagan). Leadership of the Nationalist Party (Kuomintang, Guomindang) and, hence, of the government, passed to Chiang's elder son, Chiang Ching-kuo (Jiang Jingguo). The younger Chiang was elected to a six-year term as president in March 1978 and reelected in 1984. While control of the central government had remained in the hands of mainlanders in the first decades of the Nationalists' rule on Taiwan, Taiwanese Chinese increasingly won elections at local levels, and Chiang Ching-kuo instituted a policy of bringing more Taiwanese into the Nationalist Party. By the 1980s, economic development had produced a new middle class, and the passage of time, together with intermarriage between mainlanders and Taiwanese, had brought a new generation for which the distinction between mainland and Taiwanese held diminished importance. These factors contributed to popular pressure for a more democratic government. In November 1986, 5,000–10,000 demonstrated in support of an exiled dissident, Hsu Hsin-liang (Xu Xinliang),

when he was not allowed to return to Taiwan. Thousands protested the 38th anniversary of martial law in May 1987. And, in March 1990, more than 10,000 demonstrators demanded greater democracy and direct presidential elections. This was followed in the same month by a demonstration involving some 6,000 students.

In 1987 martial law was revoked and with that press restrictions were eased, citizens were allowed to visit relatives on the mainland, and opposition political parties formed. Then in January 1988, Chiang Ching-kuo died and was succeeded as president by the Vice-President, Lee Teng-hui (Li Denghui, b. 1923). Lee, a protégé of Chiang Ching-kuo, was a native Taiwanese. In March 1990, the National Assembly reelected Lee as president for a six-year term. In July, he was also named Chairman of the Nationalist Party by the Party Congress.

In the early 1990s, as Taiwan increasingly opened its political system to greater democracy, the KMT's corrupt practices were revealed. However, after the 1992 legislative elections, the KMT emerged victorious as it still controlled most national media and opposition parties failed to mobilize voters. Vote-buying and other forms of fraud were also widespread. By the 1995 elections, however, the political environment changed because the KMT lost control of the media. Furthermore, the Control Yuan, the branch of government responsible for oversight, began to assert its independence by investigating KMT corruption. In local elections of 1994, for instance, state prosecutors convicted more than one third of 858 city and county representatives for vote-buying. Just prior to the 1995 national elections, it was revealed that the Minister of Justice had evidence of another extensive ring of vote-buying. The KMT took 54% of the vote (83 seats), its lowest majority ever and its major rival, the Democratic People's Party (DPP) obtained 54 seats and the Chinese New Party (CNP) captured 21 with 6 going to various independents. The constitution was also rewritten in 1995, calling for direct election of the president with the first election slated to be held in 1996.

Amid these democratic reforms, Taiwan faced a major international crisis in 1995 when President Lee was given a US visa to visit Cornell University, his alma mater. China objected vociferously and threatened military action against Taiwan. In a show of support for Taiwan and in opposition to PR China's launching of missiles into Taiwan's territorial waters, the United States dispatched a naval force to the region, only to further irritate PR China.

Prior to the presidential elections of March 1996, the formerly united KMT began to splinter. Dissidents within the party and those who had previously left the KMT announced their intentions to run against Lee, who had been chosen by a party plenum in August 1995 as the official KMT candidate. Primary among these were Lin Yang-gang, a former Judicial Yuan president and current vice-chairman of the KMT, and Chien Li-an, president of the Control Yuan and former Minister of National Defense. Campaigning was intense, with scandals being revealed on all sides, but Lee received a resounding 54% compared to 21% for his nearest competitor.

President Lee was criticized by political opponents in 1997 as an increased wave of crime swept the island. In May 1997, more than 50,000 protestors gathered in the capital protesting the government's lack of action on issues of crime. Multiple members of the Executive Yuan resigned and Lee reshuffled his cabinet. However, late in 1997, the KMT suffered severe losses in local and magistrate elections. The main opposition, the DPP, won 12 of the 23 constituency positions contested and led to the reorganization of the KMT following the resignation of the party's Secretary General. In 1998, the KMT recovered in the next set of elections but only to suffer a setback in summer elections that year. As the economy weakened from the Asian financial crisis, the government sought to deregulate the economy and decrease taxes. Relations with PR China again worsened as

Taiwan prepared for presidential elections in 2000. On 18 March 2000, Chen Shui-bian, the DPP candidate and a former dissident leader imprisoned for his opposition to the KMT was elected president in a hotly contested race. He obtained 39.3% of the vote and Lien Chan (KMT) captured 23.1% while ex-KMT businessman James Soong ran as an independent and garnered 36.8%. Leading up to and following the election, the PRC warned the Taiwanese that the election of a pro-independence DPP candidate would lead to possible military action. In his inaugural address in May, Chen stated that he would not declare independence as long as China did not attack the island. He said he would not call for a referendum on independence, nor abolish Taiwan's plan for an eventual reunion with the PRC. China responded by saying that Chen had evaded the question as to whether he considered Taiwan to be part of China.

In April 2001, the Dalai Lama met with President Chen during a visit which drew strong opposition from China. That month, the United States announced it would sell submarines, warships, and anti-submarine aircraft to Taiwan, but not the Aegis naval combat radar system, as Taiwan had requested. China protested the sale, and US president George W. Bush pledged to come to Taiwan's aid in the event of a Chinese invasion. That November, Taiwan lifted a 50-year ban on direct trade and investment with China.

In parliamentary elections held 1 December 2001, the DPP won 87 out of 225 seats, compared with the KMT's 68. It was the first time the KMT lost its parliamentary majority since 1949. In January 2002, Prime Minister Chang Chun-hsiung led the cabinet to resign en masse, stating he had "accomplished his mission" during a time of political instability in the transfer of power from the KMT to the DPP, and during an economic downturn that was worse than the Asian financial crisis of 1997-98. President Chen nominated his chief-of-staff, Yu Shyi-ku, as prime minister.

As of April 2002, academics from Taiwan and China were discussing the possibility of building an underwater tunnel to join Taiwan and the mainland. The shortest possible route would be 78 miles. Currently there is no direct passenger access between the mainland and Taiwan by air or sea. All travel between the ROC and the PRC is required by both sides to go through another regional location. The ROC and the PRC declared that technical considerations for the tunnel posed no problems; the question to be resolved is the political one.

In August 2002, President Chen referred to Taiwan and China as two countries, and stated he supported legislation for a referendum to be held on independence, contrasting with his inaugural pledge not to hold a referendum. No timetable for a referendum was set.

### 13 GOVERNMENT

The government of the Republic of China in Taipei claims to be the central government of all of China. Its constitution was drafted by a constitutional convention at Nanjing (Nanking) on 15 November 1946; it was adopted on 25 December 1946 and promulgated by the national government on 1 January 1947. All governmental powers originally emanated from the National Assembly; however, the powers of the National Assembly have been curtailed. The first National Assembly, which was elected in November 1947, had 2,961 delegates, selected on the basis of regional and occupational representation. The original delegates held their seats "indefinitely," until control of the mainland could be reestablished. Since 1969, the number of seats gradually increased with the addition of new seats for Taiwan. In April 1990, President Lee Teng-hui revoked the emergency decree of 1948 which had allowed the 1,947 deputies to remain in office and the "indefinite" deputies had to retire by December 1991. With the promulgation of constitutional amendments on 25 April 2000, the National Assembly's functions are limited to amending the constitution and altering the national territory after a public



announcement by the Legislative Yuan. In addition, the Assembly may impeach the president or vice president within three months of a petition initiated by the Legislative Yuan. The National Assembly's 300 delegates are selected by proportional representation of the political parties in the Legislative Yuan.

The president is the head of state and of the Executive Yuan, which functions as a cabinet. Previously, the National Assembly chose the president. After amendments to the constitution in 1992, however, citizens now elect the president by direct popular vote. The president may serve a maximum of two consecutive four-year terms. Under the president, there are five government branches known as yuans (councils or departments): legislative, executive, control, examination, and judicial. The legislative yuan, elected by popular vote, is the highest lawmaking body. As in the National Assembly, many members of the 1948 legislative yuan held their seats until 1991.

The executive yuan, comparable to the cabinet in other countries, is the highest administrative organ in the government. There are eight ministries, two commissions, and a number of subordinate organs under the executive yuan. The premier—the president of the executive yuan—is appointed by the president of the republic, with the consent of the legislative yuan. The president is empowered to compel the premier to resign by refusing to sign decrees or orders presented by the latter for promulgation.

The legislative yuan is the highest legislative organ of the state. It has a binding vote of no confidence which would lead to the dissolution of the executive yuan. Of its 225 members, 168 are chosen by universal suffrage and the remaining members are appointed through a system of proportional representation. Members serve three-year terms.

The control yuan, the highest supervisory organ, exercises censorial and audit powers over the government and may impeach officials. It also supervises the execution of the government budget. It has 29 members, all of whom serve six-year terms and are appointed by the president with the consent of the legislative yuan.

The examination yuan is the equivalent of a civil service commission. It consists of two ministries. The Ministry of Examination appoints government personnel through competitive examination. The Ministry of Civil Service registers, classifies, promotes, transfers, retires, and pensions. Its president, vice president, and 19 commissioners are appointed by the president of the republic with the consent of the control yuan.

## 14 POLITICAL PARTIES

The Chinese Nationalist Party, better known as the Kuomintang—KMT, was, until 2000, the dominant political party in Taiwan. The teachings of Sun Yat-sen (Sun Zhongshan), which stress nationalism, democracy, and people's livelihood, form the ideology of the party. After the fall of the mainland to the Communists in 1949, a reform committee was organized to chart a new program for the party.

The KMT's organization is similar to that of the Chinese Communist Party. The basic unit is the cell, which represents neighborhoods. The next levels include the district, county, and provincial congresses and committees. The highest levels include the National Congress and the Central Committee. The National Congress delegates serve four-year terms and is charged with the tasks of amending the party charter, determining the party platform and other important policies. It also elects the party chairman and the Central Committee members, and approves candidates nominated by the chairman to serve as vice chairmen and members of the Central Advisory Council. When the National Congress is in recess, the supreme party organ is the Central Committee, which holds a plenary session every year.

The Central Standing Committee, which represents the Central Committee when that body is not in session, is the most

influential organ in the KMT. The day-to-day affairs of the party are managed by the secretariat. All organization within the KMT are funded by profits from party-owned and operated business enterprises, ranging from newspapers and TV stations to electrical appliance companies and computer firms.

At the party's 14th National Congress held in August 1993, significant changes to the conduct of party affairs were made. It decided that the party chairman was to be elected by the National Congress through secret ballot. President Lee Teng-hui won 83% of the votes cast and was reelected chairman of the party. In addition, four vice-chairmen were added to the Central Committee after being nominated by the chairman and approved by the National Congress. It also decided that the chairman would appoint only ten to 15 of the 31 members of the Central Standing Committee, with the remaining members elected by the Central Committee. Finally, it decided to hold the National Congress every two years instead of four years.

Under martial law, from 1949 through 1986, the formation of new political parties was illegal, although there were two nominal, previously formed parties. Non-KMT candidates ran as independents or "Nonpartisans," with increasing success by the end of the 1970s. In September 1986, a group of "nonpartisans" formed a new opposition party, the Democratic Progressive Party (DPP), which had an orientation toward the Taiwanese population and advocated "self-determination." Although technically illegal, the DPP's candidates took 22% of the vote in the December 1986 elections, winning 12 out of 73 contested seats in the Legislative Yuan; the KMT won 59. The lifting of martial law in 1987 made the formation of new parties legal, although a new security law continued to restrict political activity. In the first fully competitive, democratic national elections, in December 1992, the KMT won 53% and the DPP 31% of the votes for the Legislative Yuan. Before the 1995 legislative elections, the KMT began to splinter and in 1994 the Chinese New Party (CNP) was formed by KMT defectors who favored strengthened ties with the mainland. In the 1995 balloting, however, the KMT was able to maintain its majority, winning 83 of the 164 seats in the Legislative Yuan. The DPP took 54, the CNP took 21 and six seats were won by independents. In the National Assembly (334 seats) the KMT took 183, the DPP 99, the CNP 46, and six were won by others.

The Democratic Progressive Party was formed on 28 September 1986. The party's organizational structure closely resembles that of the Kuomintang. The DPP's National Congress elects members to the Central Executive Committee and to the Central Advisory Committee. The Central Executive Committee in turn elects the members of the Central Standing Committee. Its leader is President Chen Shui-bian. At the party's sixth National Congress, held in April and May of 1994, a two-tier primary system was initiated under which ordinary members of the DPP voted for candidates in one primary election and party cadres vote in a second primary. The results of the two would then be combined, with equal weight given to both. At the second plenary meeting of the sixth National Congress held in March 1995, the nomination process for the presidential and gubernatorial candidates was modified to add open primaries for DPP members and nonmembers. It was further decided at the meeting that the party chairman would be elected directly by all members of the party starting in 1998. What most distinguishes the DPP from the two other major parties is its support of Taiwan independence, or the permanent political separation of Taiwan from the Chinese mainland. Although the DPP has incorporated Taiwan independence into its official platform, the urgency accorded to its realization is a source of factional contention within the party.

The Chinese New Party (NP) was formed in August 1993, shortly before the Kuomintang's 14th National Congress by a group of KMT reformers who broke away from the party in protest of the undemocratic practices of the KMT. The NP

adopted an anticorruption platform and championed social justice. The goal of the NP was to attract voters who were dissatisfied with the performance of the ruling KMT and opposed to the DPP's advocacy of Taiwan independence.

As of early 2003, there were 4 significant political parties operating in Taiwan. The DPP, which won the presidential and legislative elections of 2000 and 2001, respectively, is the largest party. It took 87 seats in the Legislative Yuan in December 2001 election. The KMT took 68 seats, and is currently the second largest party in the Legislative Yuan. The People First Party (PFP), founded by James Soong following his second-place finish in the 2000 presidential election, is now the third largest party with 46 seats. The fourth major political party, based on its membership in the Legislative Yuan, is the Taiwan Solidarity Union (TSU), winning 13 seats. As of June 2002, a total of 99 political parties had registered with the Ministry of the Interior.

## 15 LOCAL GOVERNMENT

The Taiwan provincial government holds jurisdiction over the main island of Taiwan, 21 smaller islands in adjacent waters, and the 64 islands of the Penghu (Pescadores) group. The provincial capital is located at Taichung. The province is divided into 16 county (hsien) administrative areas and 5 municipalities under the direct jurisdiction of the provincial government. In addition, Taipei (since 1967) and Kaohsiung (since 1979) are self-governing "special" municipalities. Subdivisions of the county are the township (*chen*), the rural district or group of villages (*hsiang*), and the precinct. Quemoy and Matsu are administered by the military. At the local level and under the Taiwan Provincial Government, there are five cities—Keelung, Hsinchu, Taichung, Chiayi, and Tainan—and 16 counties, and under each county there are county municipalities.

The province is headed by a governor who is nominated by the president of the executive yuan and appointed by the president of the republic. Department heads and members of the provincial council are recommended by the governor for appointment by the executive yuan. The governor is the ex officio chairman of the appointed provincial council, the policy making body, and holds veto power over its resolutions. The provincial government can issue ordinances and regulations for the administration of the province as long as they do not conflict with laws of the central government. The mayors and city councils of Taipei and Kaohsiung are elected.

The provincial assembly, an elected body, meets for two yearly sessions of two months each. Nominally it possesses broad legislative powers; however, its prerogatives are circumscribed by a provision in its organic law that in the event of a disagreement between the provincial executive and the Assembly, the former may request a reconsideration. Should the assembly uphold its original resolution, the provincial executive may submit the dispute to the executive yuan for final judgment. The executive yuan may dissolve the provincial assembly and order a new election if it holds that the assembly is acting contrary to national policy.

At the end of 1996, the National Development Conference was convened to streamline local government operations. The county government is headed by an elected magistrate (*hsien-chang*) and the municipal government by a mayor (*shih-chang*). Each county or municipality has a representative body called the *hsien*, or municipal assembly. Further down are the councils and assemblies of townships and rural districts, each headed by a chief officer. All of these officials are elected by universal suffrage of citizens over age 20.

## 16 JUDICIAL SYSTEM

The judicial yuan is Taiwan's highest judicial organ. It interprets the constitution and other laws and decrees, adjudicates administrative suits, and disciplines public functionaries. The

president and vice president of the judicial yuan are nominated and appointed by the president of the republic, with the consent of the legislative yuan. They, together with 15 grand justices, form the Council of Grand Justices, which is charged with the power and responsibility of interpreting the constitution, laws, and ordinances. The judicial system is based on the principle of three trials in three grades of courts: district court, high court, and supreme court. The Supreme Court, the highest tribunal of the land, consists of a number of civil and criminal divisions, each of which is formed by a presiding judge and four associate judges. The judges are appointed for life.

In 1993 a separate constitution court was established. Staffed by the then-16 grand justices of the judicial yuan, but with the judicial yuan excluded from the court, the new court was charged with resolving constitutional disputes, regulating the activities of political parties and accelerating the democratization process.

There is no right to trial by jury, but the right to a fair public trial is protected by law and respected in practice. Defendants are afforded a right to counsel and to a right to appeal to the High Court and the Supreme Court in cases in which the sentence exceeds three years. Those sentenced to three years or less may appeal only to the High Court. The Supreme Court automatically reviews all sentences to life imprisonment or death. There is also an administrative court.

The judicial system is based on civil law and Taiwan accepts compulsory jurisdiction of the International Court of Justice.

## 17 ARMED FORCES

In 2002, the armed forces totaled approximately 370,000 with reserves numbering 1,657,500. The army had 240,000 members including military police. Equipment included more than 900 main battle tanks. The navy numbered 62,000, including 30,000 marines, and operated four submarines and 32 principal surface combatants. The navy also had a naval aviation wing equipped with 32 combat aircraft and 20 armed helicopters. The air force had personnel numbering 68,000 operating 479 combat aircraft. Paramilitary included security groups of 25,000, including a National Police Administration, a Bureau of Investigation, Military Police and Coast Guard. Taiwan spent \$8.04 billion on defense in 2001, or 2.8% of gross domestic product.

## 18 INTERNATIONAL COOPERATION

The ROC, a charter member of the UN, became the first government to lose its recognition from that body following a General Assembly vote on 25 November 1971 to recognize the PRC as the sole legitimate representative of China. The ROC subsequently lost its membership in most UN bodies, as well as in several other international organizations—usually with its place taken by the PRC. As of 2003, the Asian Development Bank was one of the few major intergovernmental groups to which Taiwan still belonged; others included the ICC, IOC, and WCL. Taiwan is a member of APEC, and in January 2002, Taiwan officially became a member of the WTO.

As of August 2002, Taiwan had formal diplomatic ties with only 27 countries. The government claims to have "substantive" trade relations with more than 140 countries and territories, however. In November 2001, Taiwan lifted a 50-year ban on direct trade and investment with China.

## 19 ECONOMY

Under the Japanese, the island was developed as a major source of foodstuffs for Japan. Production of rice and sugar increased rapidly, but little effort was directed toward industrialization until after 1937. Immediately after World War II, a number of factors—including repatriation of Japanese technicians, dismantling of industrial plants, and lack of fertilizer for agriculture—caused a rapid deterioration of the economy, which was aggravated by the influx of refugees from the mainland. The

situation improved after 1949 with the removal of the ROC government to Taiwan. The arrival of technical and experienced personnel and capital equipment from the mainland facilitated the island's economic rehabilitation. Currency and tax reforms stabilized the monetary situation. The supply of fertilizer from the United States and a land reform program aided the revival of agricultural production.

Energetic government measures in the form of successive four-year plans, at first supplemented by US aid, resulted in substantial economic progress. In the first decade (1951–60), the stress was on agricultural development and the establishment of textile and other labor-intensive industries. From 1961 to 1970, the promotion of industrial products for export was emphasized. In 1963, Taiwan registered its first favorable trade balance. By 1965, the economy appeared stable enough to warrant the cessation of US economic aid programs. Medium and light industry led the expansion, with striking gains registered in electronics, household goods, and chemicals. The decade 1971–80 saw the development of such capital-intensive industries as steel, machinery, machine tools, and motor vehicle assembly. Such industries, based on imports of raw materials, were encouraged through massive government support for major infrastructural improvements in roads, railroads, ports, and electricity. During the 1980s, emphasis was placed on the development of high-technology industries. As a result, between 1981 and 1991, the share of high-technology industries in total manufactures increased from 20% to 29%, making Taiwan the 7th largest producer of computer hardware on the global market. The 1990s brought an influx of capital-rich investment, especially after 1996 when the first democratic elections were held. High-technology industries accounted for over 73% of total manufacturing, and 67% of exports in 1999. Growth accelerated in the late 1990s, measuring 4.6% in 1998, 5.4% in 1999 and 6% in 2000, spurred by the boom in the PC and IT industries. Exports played an increasing role, accounting for 47.8% of GDP in 1998, 48.3% in 1999 and 54% in 2000. Growth in high-tech exports peaked at 54% in the third quarter of 2000.

Taiwan's GNP advanced at an average annual rate of 9% in real terms between 1952 and 1980. In contrast to Taiwan's industry-led economic growth of previous decades, since the late 1980s the country has undergone a shift towards a services-dominated economy. As of 2000, services made up about 66% of the GDP, compared to less than 50% in the mid-1980s and 44% in the early 1960s. Taiwan has the world's third largest foreign exchange reserves and over \$230 billion in two-way trade. Though still expanding in absolute terms, industry's share of the GDP declined from 52% in 1986 to 32% in 2000. Agriculture has continued to claim only a small share of the economy, making up 2% of the GDP in 2000. A lack of domestic resources hampers the development of agriculture and primary industries. An earthquake in September of 1999 caused major damages to Taiwanese lives and property, but reconstruction was complete by 2000. What affected the economy was the burst of the dot.com bubble beginning in late 2000, and the global slowdown in 2001, aggravated by the aftermath of the 11 September 2001 terrorist attacks on the United States. Taiwan experienced its first recorded decline in real GDP, -2.2%. Recovery began in the last quarter of 2001, and in 2002 real growth of 3.2% was recorded. Inflation has been generally falling in the late 1990s, from 3.1% in 1996 to 0% in 2001 and a slightly negative -0.2% in 2002. Unemployment, by contrast, has increased steadily, from 2.6% in 1996 to 5.2% in 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Taiwan's gross domestic product (GDP) was estimated at \$386 billion. The per capita GDP was estimated at \$17,200. The annual growth rate of GDP was estimated at -2.2%. The average

inflation rate in 2001 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 32%, and services 66%. It was estimated that in 2000 about 1% of the population had incomes below the poverty line.

## 21 LABOR

The civilian labor force in Taiwan was estimated at 9.8 million in 2001. The share of persons employed in farming, forestry, and fishing has been declining steadily, while the share of the workforce employed in mining, manufacturing, construction, and utilities has increased. As of 2001, about 8% of the labor force was engaged in agriculture, 56% in services, and 36% in industry and commerce. In that year the unemployment rate was estimated to be 4.5%.

Trade unions are weak and cannot be called unions in the real sense of the term, for the law does not provide for effective collective bargaining and also prohibits strikes, shutdowns, and walkouts in vital industries. The trade unions, organized under government supervision, tend to be used for carrying out government policies, but they carry on a considerable amount of welfare work. In 2002, there were 3,854 registered unions in Taiwan, with membership totaling 29% of all employed persons.

The minimum age for employment is 15. Current occupational health and safety regulations provide only minimal protection and have a mixed record of enforcement. The law provides for an eight-hour day (which may be extended to 11 hours for men and 10 for women) and a six-day workweek; overtime is paid at 40–100% above the regular wage. Most large firms give allowances for transportation, meals, housing, and other benefits, which can increase base pay by 60–80%. A minimum of one week's vacation is provided after a year's employment, and there are 14 or 15 other paid holidays. In 2002, the monthly minimum wage was \$452. This amount provides a decent standard of living in rural areas, but is not sufficient for urban life.

## 22 AGRICULTURE

About 24% of the land is under cultivation. Although still important as both an export earner and a domestic food source, agriculture has fallen far from the preeminent position it long held in the Taiwan economy. From 1973 to 1987, the crop production growth rate increased on average only 0.1% per year. In 2001, agriculture accounted for 2% of GDP. About 8% of the labor force was employed in agriculture. High production costs and low return have driven much of the agricultural work force away to industry. In 1997, there were some 780,000 farm households, down from 822,395 in 1993. Part-time farming households have accounted for over 80% of all farming households since 1980.

Rice, the principal food crop, is grown along the western plain and in the south. In 2001, paddy rice production was 1,723,895 tons; brown rice, 1,396,274 tons. Taiwan's annual rice production exceeds demand; the island's per capita rice consumption has declined by over 50% since the mid-1970s due to changing diet preferences. Other food crops include sweet potatoes, bananas, peanuts, soybeans, and wheat. Sugar, pineapples, citrus fruits, crude tea, and asparagus are plantation-grown and are the principal cash and export crops. Small amounts of Taiwan's world-famous oolong tea, cotton, tobacco, jute, and sisal are also produced. A fast-rising industry, mushroom canning, led to the development of mushroom cultivation, a specialty crop well suited to Taiwan since it is labor-intensive and requires little space and small investment. Betel nuts

have become Taiwan's second most valuable cash crop after rice. In 2001, betel nut production totaled 165,076 tons.

Generally, Taiwanese agriculture is characterized by high yields, irrigation, terracing, multiple cropping, intertillage, and extensive use of fertilizers. Farms are small, averaging 1.1 hectares (2.7 acres) of cultivable land per farm family. Mechanization, once confined largely to sugarcane and rice production, is increasing rapidly as a result of government subsidies and other incentives. Since there is an oversupply of rice, the government has encouraged farmers to grow soybeans, wheat, and corn, which are more profitable. The growing scarcity of land on Taiwan is causing serious disagreements over land resources between agricultural, industrial, and housing interests.

### 23 ANIMAL HUSBANDRY

Pastures in Taiwan occupy only 0.1% of the total land area. In 2001, livestock sector production was valued at \$141.1 million. That year, Taiwan produced 961,948 tons of pork and 502,313 tons of poultry from chickens. Hog production is Taiwan's most valuable farm product. In 1997, a major outbreak of hoof and mouth disease affected 6,147 hog farms. As a result, one-third of the hog population had to be destroyed. The government helped compensate pig farmers with \$1.1 billion in low interest loans. Livestock production declined by 13% from 1996 to 2001. Chickens and ducks are raised by most households.

### 24 FISHING

Production of fish products totaled 1.09 million tons in 2000 (18th in the world). Exports of seafood products totaled \$1,756 million in 2000. In 2000, Taiwan accounted for 6.4% of the world's fresh, chilled and frozen fish exports, valued at \$1,517 million, and 2.3% of the canned fish exports, valued at \$127.9 million. Squid, skipjack and yellowfin tuna, chub mackerel, shark, and milkfish are the main species of the marine catch. Deep-sea fishing, which was practically wiped out by World War II (1939-45), has shown strong gains following heavy investments in vessels and harbors. Milkfish, tilapias, clams, oysters, and eels are the main species farmed.

### 25 FORESTRY

The total forest area was estimated at two million ha (4.9 million acres) in 2001. The roundwood harvest was estimated at 49,000 cu m (1.73 million cu ft) in 2001 (90% softwood). Domestic timber production only meets 1% of total demand; the value of wood imports totaled \$837.5 million in 2001. Taiwan's timber production has declined since the 1980s due to local labor shortages, intensifying environmental concerns, and logging restrictions. Principal timbers are oak, cedar, and hemlock. Taiwan is a major furniture exporter that relies heavily on imported wood products to support the industry. Furniture exports in 2001 were valued at \$601 million.

### 26 MINING

Mining accounted for less than 1% of GDP. Coal, oil, and natural gas were the country's most valuable mine products. Petroleum refining was the country's second-leading industry in 2002, chemicals ranked third, and iron and steel and cement were other leading industries; chemicals were the fifth-leading export commodity. Dolomite, limestone, and marble were the most important nonfuel mineral commodities. The western third of the island had adequate amounts of sand, gravel, and limestone for building purposes, although there has been a recent slowdown in the construction sector. The demand for mineral products has increased over the years, while local supplies were dwindling. The value of mineral exports increased by 9.4% in 2001, to \$1.9 billion. Mineral production in 2001 included (in tons): dolomite, 71,000, down from 201,000 in 1999; limestone, 4.9 million tons, down from 15.45 in 1997; marble, 20.48 million tons, up from

18.01 in 1997; and serpentine, 276,000, down from 436,000 in 1997. Taiwan also produced hydraulic cement, fire clay, feldspar, precipitated gypsum, lime, mica, marine salt, caustic soda, soda ash, sulfur, and talc. No kaolin clay was produced in 1998-2001, and no nitrogen was produced in 2001.

### 27 ENERGY AND POWER

The island's installed power capacity reached 29,634,000 kW in 2001. Total electric power output reached 149,800 million kWh in 2000 (more than 60 times the 1,966 million kWh generated in 1955). Of this total, 69.5% was from fossil fuels, 5.8% from hydropower, and 24.7% from nuclear power. Consumption of electricity in 2000 was 139.3 billion kWh. As of 1998, Taiwan had six nuclear reactors at three plants with a combined installed capacity of 4,884 MW. Construction of the 2,700 MW Kungliiao nuclear plant had become a controversial issue by 2000, when the Democratic People's Party government had it halted, but through legislative and judicial efforts work on the project was resumed in 2001. Primary energy requirements increased from about 33.3 million tons of oil (equivalent) in 1985 to about 66.1 million tons in 1995. Power is controlled by the Taiwan Power Co. (Taipower), a government-owned corporation, but some enterprises generate power for their own consumption. In 1999 oil accounted for 49.2% of primary energy consumption and coal for 31.6%.

In 2000, Taiwan consumed 782,000 barrels of oil per day and produced less than 1,000 barrels per day. Oil is imported from the Middle East, Indonesia, Brunei, and Venezuela. River basin development is being vigorously pushed for irrigation, flood control, and power generation. In addition, experiments during the late 1970s and 1980s concentrated on developing Taiwan's geothermal potential. In 2000 a subsidiary of Formosa Plastics opened a refinery at Mailiao, with production reaching 150,000 barrels per day at midyear. Full capacity was projected to reach 450,000 barrels per day. In 1999 Taiwan imported 5.7 billion cu m of liquefied natural gas from Indonesia and Malaysia. Total gas consumption in the same year was 6.2 billion cu m. Taiwan's government intends to triple LNG consumption by 2010.

Coal production was 100,000 tons in 1999, down from 403,000 tons in 1991. The decline was due to government policies designed to close unsafe coal mines, high production costs, and reduced domestic reserves. The number of operating mines fell from 108 in 1985 to 41 at the start of 1995. Coal reserves at the end of 1996 amounted to 1.1 million tons. Natural gas reserves were 76 billion cu m at the beginning of 2001.

### 28 INDUSTRY

Under the Japanese, about 90% of the industrial enterprises were owned by the government or by Japanese corporations with government assistance. After the restoration of Taiwan to China in 1945, the ROC government took over these enterprises. Some were sold to private owners, and the rest were grouped under the management of 18 public corporations, operated either by the national government or by the provincial government, or by both. Added to the confiscated enemy properties were public enterprises evacuated from the mainland. As a result, government-operated enterprises came to dominate Taiwanese industry. Although the proportion accounted for by these enterprises in the production value of manufacturing industries has been falling in recent years in contrast to the private sector, it still accounts for a significant amount of value added. Beginning in 1992, Taiwan authorities have made efforts to reduce the size of the public sector. These efforts have gained momentum after democratization in 1996. By 2002, the government had sold equity shares and reduced public ownership to below 50% in 23 state-owned enterprises (SOEs), mostly banks and insurance companies, but including a steel mill and one fertilizer company. In 1998 and 1999 privatization announcements included the

Chinese Petroleum Corp., Chunghwa Telecom Corp., and Taiwan Power Corp. Plans for privatization have been announced for SOEs involved in power, oil, tobacco, wine, railway transport, mining and telecommunications. Since 1998, also, a number of construction projects—the north-south high speed railway, the mass rapid transit (MRT) systems in Kaohsiung (KMRT) and the between Taipei and the CKS Airport—were given to private firms, including many foreign companies, on a build-operate-transfer (BOT) basis.

The average annual growth rate in manufacturing was 13% during 1953–62, 20% during 1963–72, 9.6% during 1973–85 and 5.9% for 1986–92. The private sector outpaced the public sector during each of these periods. The number of workers in manufacturing rose from 362,000 in 1952 to 736,000 in 1967 and to almost 2.8 million in 1987. By 1992, however, this number declined to about 2.6 million as the rapidly expanding service sector absorbed more of the workforce. Manufacturing for export has been encouraged by the establishment of free-trade export-processing zones (EPZs) in the Kaohsiung harbor area, at Nantze (near Kaohsiung), and at T'aichung. Since the late 1980s rising production costs and a 40% appreciation of the New Taiwan dollar have prompted many export-oriented companies to relocate their manufacturing plants to mainland China and Southeast Asia. In particular; labor-intensive industries, such as toys, footwear, umbrellas, and garments, have relocated. In 1986, industrial production accounted for nearly half of GDP. By 1997 this figure had dropped to about 35% and in 2000, it was an estimated 31/9%, including manufacturing at 26.4% of GDP; construction at 3.4% and electricity, gas and water at 2.1% of GDP. For to June 2001, industrial production accounted for 29.4% of GDP, with manufacturing accounting for 24%.

Production rose spectacularly after the end of World War II, especially between 1952 and the early 1980s. Slower economic growth since the mid-1980s and greater investment emphasis on heavy and high-technology industries as well as services has resulted in declining production figures for traditional manufactures such as cotton yarn and fertilizer. Labor intensive industries have gradually been replaced by capital and technology intensive industries. In 2000 electronics and information technology (IT) products accounted for 27% of industrial output. The two largest made-to-order computer chip manufacturers are Taiwan Semiconductor Manufacturing Company (TSMC), Taiwan second-largest company, and United Microelectronics Company (UMC). In 2000, Taiwan global share in scanner production was 90%; in motherboards, 65%; monitors, 57%; in notebook PCs, 57%; in digital cameras, 45%, and in D/DVD drives, 39%. Strong growth in IT products continued in many IT products despite the overall 10.4% contraction in industrial production in 2001. Sales of LCD monitors, for instance, reached \$3.13 billion, a 66% increase over 2000, while sales of digital cameras reached \$7.132 billion, a 95.5% yearly increase. In 2000, Taiwan was the world's fourth-largest computer hardware supplier. Taiwan has become the world's leading supplier of computer peripherals, including motherboards, monitors, mice, interfaces, network cards, and graphic cards; and holds the largest market share of notebook computers and semiconductor. The structure of Taiwan's IT industry is a pyramid with a handful of large companies that make the major investments in research and development, and over 1000 small and medium-sized operations that account for about 85% of the output. The sector employs about 130,000.

Taiwan's petrochemical industry consists of mainly of 45 upper and middle-stream manufacturers, many concentrated in the Kaohsiung special chemical zone. In 1999, Taiwan's petrochemical production capacity was only 51% of domestic demand. As of 2000, this was raised to 79% with the completion of a naphtha cracking plant in the more recently developed Mailiao industrial zone. The Mailiao zone also includes its

newest oil refinery, a 450,000 barrels per day facility built by Formosa Petrochemical Company (FPC), which, with Taiwan's three other refineries—a 270,00 barrels per day refinery at Kaohsiung, a 270,000 barrels per day refinery at Ta-Lin, and a 200,000 barrels per day refinery at Taoyuan—establishes refinery capacity in excess of domestic demand. In December 2002, an export contract was concluded with the mainland China state petroleum company

In heavy industry, Taiwan has 10 manufacturing companies, most of them contractual joint ventures with Japan. The production value of the automotive industry reached \$10 billion in 2000, about 4% of its aggregate manufacturing. Taiwan's small size and the availability of efficient MRT lines limits the demand for automobiles. Domestic demand for vehicles fell from 542,000 in 1995 to 420,000 in 2000.

Textiles were the leading export until the 1980s when labor costs, land prices and environmental protection concerns led to a relocation of much of the industry to Southeast Asia and China. The domestic industry is based on man-made fibers. In 2000, Taiwan was third in the world in the production of man-made fibers, and second in the production of polyester, which constitutes 80% of its output.

Overall industrial production fell 2.6% in 1998 from an increase of 7.4% in 1997, due largely to the effects of the Asian financial crisis. Industrial production recovered quickly to growth rates of 7.5% and 7.4% in 1999 and 2000, but then slid 10.4% in 2001 in the wake of the dot.com bust. In 2002, the economy recovered, registering a 3.3% growth rate, and in the first quarter of 2003, industrial production had risen 6.4%.

## 29 SCIENCE AND TECHNOLOGY

In the 1970s, Taiwan instituted its Science and Technology Development Program. Coordinated by the National Science Council, the program seeks to encourage the development of "knowledge-intensive" industries through grants for the training of scientific personnel, subsidies for recruitment of distinguished scientists from abroad, and grants to universities to promote scientific research. Specific goals of the program are to integrate and promote research in geothermal energy, battery-powered vehicles, electronics, cancer treatment, pharmaceuticals, nuclear safety, and the development of high-precision instrumentation and computers.

The Industrial Technology Research Institute is charged with the transfer of pertinent technologies developed to manufacturing and other industries. College students are encouraged to build careers in engineering and science. In 1979, the Science-Based Industrial Park was established at Hsinchu, near the National Tsinghua University, with the objective of encouraging computer manufacturing and other high-technology industries by offering loans, tax incentives, and low-cost housing and factory buildings. By 1990, over 60 companies had established research and development and joint production facilities there. These include computer, semiconductor, precision electronics and instrumentation, telecommunications, and biotechnology firms.

The highest institution for scientific research on Taiwan is the Academia Sinica (Chinese Academy of Sciences), founded in 1928 and now located in T'aipei. Its 18 associated institutes carry on research in mathematics, statistics, history and philology, economics, modern history, physics, botany, zoology, ethnology, chemistry, molecular biology, biological chemistry, biomedical sciences, atomic and molecular sciences, earth sciences, information science, nuclear energy, social sciences and philosophy, and American culture. An Atomic Energy Council, founded in 1955, promotes atomic research.

In T'aipei, the National Taiwan Science Education Center has a planetarium and various exhibits; the Taiwan Museum has exhibits on natural history, geology, and ethnography, and a spectroscopic dating laboratory for fossils. Taiwan has 23 universities and colleges that offer courses in basic and applied sciences.

### 30 DOMESTIC TRADE

The marketing system is partly free and partly controlled. Salt, tobacco, alcoholic beverages, and certain commodities are produced and distributed by the government. Prices of basic living commodities are controlled. Retail sales in cities are handled by small department stores, specialty shops, general stores, convenience stores, roadside stands, and peddlers. In 2000, Taiwan had over 1,000 supermarkets and 3,200 convenience stores. Since roadside stands and peddlers have little overhead and are satisfied with a small profit, their prices are generally lower than those of the large stores and shops, if the customer bargains. In recent years, wholesale discounters, hypermarkets and franchises have become significant distribution channels for consumer goods, increasing the efficiency of the marketing system overall. The nation's first shopping malls opened in 1999 and 2001, with development plans to build 20 to 30 more within the next few years.

Chilung and T'aipei are the distribution centers for the northern end of the island, while Kaohsiung and T'ainan are the principal distribution centers for the southern area. Most registered import and export trading firms are located in T'aipei. Accounts are usually settled during festival periods, according to Chinese custom.

Local markets open about 7 AM and close at 6 PM or later. Business firms and stores are usually open from 9 AM to 5:30 PM, and in the morning on Saturdays, and some stores close as late as 10 PM. Most stores are open seven days a week. Banks are open six days a week: Monday–Friday, 9 AM to 3:30 PM, and Saturday, 9 AM to noon. As of January 1998, government employees (excepting the police, health bureau, and customs) and most private companies take the second and fourth Saturday of the month off.

### 31 FOREIGN TRADE

Foreign trade is of ultimate importance to the island economy. To fulfill both production and consumer needs, Taiwan must import large quantities of energy, industrial raw materials, food, and manufactured goods. With rising consumer wealth within Taiwan as well as tariff reductions and other liberalization measures by the government, imports have risen rapidly from \$24 billion in 1986 to an estimated \$122 billion in 2000.

The export pattern has changed significantly since the end of World War II. In 1952, industrial products represented only 10% of Taiwan's total exports and agricultural exports made up the rest; but by 1992, industrial exports (excluding processed agricultural products) had jumped to an overwhelming 95.7% share of the total. Exports increased from \$8.2 billion in 1976 to an estimated \$112 billion in 2000. However, the export growth rate has declined steeply in recent years, from 23% in 1986 to 13% in 1991 and 0.4% in 1992, due to recession in Taiwan's major markets and the movement of export-oriented manufacturing plants to China and Southeast Asia. Exports leveled off in 1997, and dropped by 9.4% in 1998, in part due to the financial crisis in all of Asia. The growth in services has overtaken that of industrial production.

Most of Taiwan's export commodities are electronic equipment and other small manufactured goods. The top 10 exports are as follows:

	% OF COUNTRY TOTAL	% OF WORLD
TOTAL		
Transistors and valves	7.2	5.0
Office machine parts	6.8	8.3
Automatic data processing equipment	6.6	5.9
Telecom equipment	3.7	3.6
Toys and sporting goods	2.9	10
Bicycles and motorcycles	2.8	18
Woven man-made fiber fabric	2.8	9.2
Articles of plastic	2.7	6.2
Base metal	2.4	7.1
Special textile fabric and products	2.3	14

The United States remains Taiwan's single most important trade partner, although Japan has made major gains, becoming Taiwan's major supplier in the 1970s and 1980s. Over 18% of imports come from the United States, while Taiwan exports more than 27% of goods to the United States. Trade with mainland China via Hong Kong expanded rapidly during the late 1980s and early 1990s, resulting in a sharp increase in Taiwan's trade surplus with the latter country. Following cross-strait tension from 1995 onwards, Taiwan investors have limited their relations with mainland China, resulting in a 50% drop in investment during 1998. Exports to China fell by 13% in 1998.

### 32 BALANCE OF PAYMENTS

There was a consistent trade surplus after the mid-1970s, which exceeded \$10 billion after the mid-1980s through the mid-1990s. The current account surplus was \$19 billion in 2001 and was forecast to remain substantial in 2003. Taiwan's total foreign exchange reserves are the world's third largest after Japan and China; they stood at a record \$175.2 billion in May 2003. Total foreign debt was only \$24 million in 2001.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Taiwan's exports was \$122 billion while imports totaled \$109 billion resulting in a trade surplus of \$13 billion.

### 33 BANKING AND SECURITIES

Many banking institutions are either owned or controlled by the government. There were eleven public banks in 1998, with total assets of \$261 billion, or 44%. The Bank of Taiwan (with 75 branches) used to issue currency notes, handle foreign exchange, act as the government's bank, and perform central banking functions in addition to its commercial banking activities; before reactivating the Central Bank of China (CBC) in T'aipei in 1961. The functions of the Central Bank include regulation of the money market, management of foreign exchange, issuance of currency, and service as fiscal agent for the government. The Bank of China is a foreign exchange bank with branch offices in major world capitals. The Bank of Communications is an industrial bank specializing in industrial, mining, and transportation financing. The Export-Import Bank of China, inaugurated 1 February 1979, assists in the financing of Taiwan's export trade. The Central Trust of China acts as a government trading agency and handles most of the procurements of government organizations. The Postal Savings System accepts savings deposits and makes domestic transfers at post offices.

At the end of 2002 there were 48 domestic commercial banks, five medium business banks, and 39 foreign banks. There were also 48 credit cooperatives, 287 farmers' credit unions, and 27 fishermen's credit unions. The government holds majority status in several of the most important banks, including the Bank of Taiwan, the Cooperative Bank of Taiwan, and the First

Commercial Bank. The two largest private banks are the International Commercial Bank of China and the Overseas Chinese Commercial Banking Corp. By 1998, three large government-owned provincial banks were privatized, and others were set to follow.

In 1990 the government announced the goal of establishing the island as a regional financial center. Its original target of 1996 was far too optimistic, and liberalization will have to be far more thoroughgoing than that to which the authorities are at present committed, but various steps are being taken towards this end. Restrictions on bringing in capital from abroad, limits on capital transfers both in and out of Taiwan by domestic firms and individuals, and the operations of foreign banks have been liberalized. On 18 February 1997, the Finance Ministry set up a 37-member financial reform task force, headed by the finance minister. This group spent ten months devising proposals in the following four areas: improving the overall efficiency of the banking system; development of capital and derivatives markets, and relaxation of the rules governing the kinds of business banks may conduct; improving market-regulating procedures such as credit evaluation systems, asset management, investor insurance, and insider trading rules; and strengthening banks' internal financial controls.

Taiwan's first private corporate bond issue was floated in 1958. The first stock exchange in Taiwan opened on 4 February 1962. Volume was low until liberalization measures opened the market to foreigners, and the Taiwan stock market surged in the early months of 1997, with the index smashing through the 8,000-point barrier for the first time since 5 March 1990. This milestone immediately prompted rumblings from the CBC that the market was overheated. Yet by May 1997, the market was flirting with the next resistance level, at 8,500 points. Authorities raised the limits to foreign ownership in companies listed on the TAIEX from 30% to 50% in 1999. Most limits on foreign ownership were ended in 2000, and the index was up by the 10,000 mark in that year. However, it has since dropped off considerably, especially in the wake of the Asian financial crisis of 1998. The TAIEX was at 5,551.2 at the end of 2001, and trading value, at \$545 billion, was only slightly more than half of the previous year's level.

### **34 INSURANCE**

Insurance in Taiwan is supervised by the Ministry of Finance and may be written only by a limited liability company or a cooperative association. Aside from group insurance operated by the government, life and annuity insurance are comparatively undeveloped in Taiwan. The Chinese tradition that the family should take care of its members in sickness and old age lowered demand in the past, but social change and rapid economic growth have modified this situation, especially in industrial areas. In 1986, the Taiwanese government agreed to allow US companies to compete equally for insurance business. In 1999, nine foreign nonlife insurers were authorized to run full branches in Taiwan. Foreign insurers must receive approval from the government, however, and secure a business license. In Taiwan, third-party automobile liability, health insurance, pension, unemployment insurance, and workers' compensation are all compulsory.

### **35 PUBLIC FINANCE**

Central government revenues come mostly from taxation, customs and duties, and income from government monopolies on tobacco and wines; other revenues are derived from profits realized by government enterprises. Government accounts showed surpluses through the early 1980s.

Public authorities anticipated a growing fiscal deficit throughout the 1990s as Taiwan's six-year development plan required over \$300 billion of investment in public infrastructural construction projects and in upgrading industries. In 1996, the

government's deficit was equal to 4% of GDP. Growing demands for social welfare spending and increased defense spending (up 20% in 1996/97, the largest rise in over a decade) continued to put pressure on the budget. Outstanding debt reached 16% of GDP in 1998, up from 6% in 1991, and debt service payments consumed 15% of the central budget in 1999. The government was committed to balancing the budget by 2001. Austerity measures included controlling public sector consumption expenditures, limiting expansion of government expenditures, freezing government employment, limiting public employee pay raises, and encouraging private participation in major public projects. The government was also committed to reducing the public sector's role in the economy. National defense expenditures as a portion of the central budget dropped from over 40% in 1960 to 20% in 1999, and were set to fall to 15% in 2000.

The US Central Intelligence Agency (CIA) estimates that in 2002 Taiwan's central government took in revenues of approximately \$36 billion and had expenditures of \$36.1 billion. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$40 billion.

### **36 TAXATION**

All taxes are collected by the local government and transferred to the relevant provincial or central government agency. Tax revenues reserved for the central government include the income tax, estate (inheritance) tax, gift taxes (4% to 50%); customs duty, stamp tax, commodity tax, securities transaction tax, and mine tax. The rates for income tax payment for individuals ranges from 6% to a top rate of 40%. Corporate income taxes range from 0 to 25%. A VAT introduced in April 1986, with a common rate of 5%. Sales taxes are 1% for reinsurance activities; 5% for bank activities, insurance and brokerage services; and 15% to 25% for bars and restaurants. There is a 60% ad valorem merchandise tax on petrol. There are no social security or local income taxes in Taiwan.

### **37 CUSTOMS AND DUTIES**

Customs duties are important revenue earners and consist principally of import duties and tonnage dues; the former are levied on dutiable commodities, the latter on ships that call at Taiwan ports. The average rate was 8.2% in 2002. Duties range from 2% to 60%. The seven duty categories include rubber tires, cement, beverages, oil and gas, electrical appliances, glass, and automobiles. In 1998, Taiwan reduced tariffs on a wide range of items. Articles imported for military use, for relief, or for educational or research purposes are exempted from import duty. Duties on imported raw materials for business can be rebated. Some agricultural products are prohibited from importation, such as rice, sugar, chicken, some pork cuts, peanuts, and certain dairy products. Imports from Japan and mainland China are restricted due to balance of payments problems.

### **38 FOREIGN INVESTMENT**

From 1952 to 2000 cumulative foreign direct investment approvals came to \$44.8 billion of which 24% was in the electronics and electrical industries. Other industries attracting relatively heavy foreign investment include banking and insurance services, chemicals, trade and basic metals. The government reported Taiwan received \$3.27 billion in foreign investments in 2002, and had received an average of \$2.7 billion a year 1991 to 1999. The rate of foreign investment has been rapidly accelerating as in preparation for its accession to the World Trade Organization (WTO) Taiwan has liberalized its economy and improve its investment environment. Foreign firms are generally accorded national treatment and trade-related capital flows are unrestricted. In January 2001 the 50% foreign ownership limit was lifted with exceptions in a few designated

industries. Most limits on the amount of portfolio investment in companies listed on the Taiwan Stock Exchange (TSE) were also lifted. About 1% of manufacturing industries and 5% of services industries continue to have limits on foreign ownership. Investment incentives are offered for investments in emerging or strategic industries, pollution control systems, production automation, and energy conservation. Since the goal was first announced in 1995, increasing effort has been put in making Taiwan an Asia-Pacific Regional Operations Center (APROC). A goal is to have about 1,000 corporations establish headquarters in Taiwan by 2011.

The United States has been the largest source of foreign investments in Taiwan with investment approvals totaling \$10.7 billion in the period 1952 to 2000, 24% of the total. Another \$9.2 billion is approvals during this time from the British Virgin Islands, the Cayman Islands, and other off-shore havens in Central America, should also be largely attributed to US multinationals. Japan has ranked second with approved investments totaling \$9.2 billion or 21% of the total. Twenty-seven percent has been in electronic and electrical products and 20% in services and trade. Investment approvals totaled 1,410 equal to potential investment of \$7.6 billion, an increase of 80% over 1999. Most of these investment applications came from British territories in Central America (mainly the British Virgin Islands, the Cayman Islands, and other conduits of mostly US investments), the United States, Singapore, Japan and the United Kingdom.

Taiwan outward investment has been such that by 2000 over 50% of Taiwan manufacturing was being conducted outside of the country, and by 2001, 53% was being out-sourced. The top five sectors for outward investment were banking and finance, services, electronics and electrical appliances, marketing, and transportation. In 1992, investment in mainland China was legalized and despite a fall off due to tensions in 1996, by 2001 Taiwan had become China's fourth-largest source of foreign investment. In 2002, the government changes its official investment stance towards China from "patience over haste" to "active opening and effective management."

### 39 ECONOMIC DEVELOPMENT

Since 1950, the government has adopted a series of economic plans to help guide and promote economic growth and industrialization. The first four-year economic development plan (1953–56) emphasized reconstruction and increased production of rice, fertilizers, and hydroelectric power; it resulted in an increase of 37% in GNP and 17% in income per capita. In the second four-year plan (1957–60), import substitution industries were encouraged. Industry and agriculture both registered significant gains; GNP increased by 31%, and national income per capita by 13%. The third four-year plan (1961–64) emphasized labor-intensive export industries, basic services, energy development, industries contributing to agricultural growth, and exploration and development of the island's limited natural resources. The results were a 42% increase in GNP and a 31% increase in per capita income. US loans and grants, totaling \$2.2 billion, and foreign (mostly overseas Chinese) investment financed these early stages of development.

Following the curtailment of AID assistance in 1965, the fourth four-year plan (1965–68) was introduced, followed by the fifth four-year plan (1969–72); increases in GNP for these periods were 46% and 55%, respectively. By 1971, exports of manufactured goods had registered spectacular increases, and Taiwan's foreign trade pattern changed from one of chronic deficit to consistent trade surpluses. At this point, the government began to redirect its priorities from labor-intensive industries to the development of such capital-intensive sectors as shipbuilding, chemicals, and petrochemicals. The sixth four-year plan (1973–76), adversely affected by the worldwide recession, was

terminated in 1975 after producing only an 19% increase in GNP. It was replaced by a six-year plan (1976–81) that focused on expansion of basic industries and completion of 10 major infrastructural projects, including rail electrification, construction of the North Link railroad, development of nuclear energy, and construction of the steel mill at Kaohsiung and of the new port of T'aichung.

In 1978, the six-year plan was revised, and 12 new infrastructural projects were added, including completion of the round-the-island railroad, construction of three cross-island highways, expansion of T'aichung Port's harbor, and expansion of steel and nuclear energy facilities. A subsequent four-year plan (1986–89), designed to supplement a longer-range 10-year plan (1980–89), had as a target average annual GNP increase of 6.5%. Among its goals were price stability, annual growth of 7.5% in the service sector, trade liberalization, encouragement of balanced regional development, and redirection of new industrial growth into such high-technology industries as computers, robotics, and bioengineering. In response to flagging export growth and a slowdown in private investment following a stock market collapse in 1990, the government devised a Six-Year Plan for 1991–97 aimed at economic revitalization. This plan targeted investment mainly in transportation, telecommunications, power generation, and pollution control. A "Statute for Upgrading Industries" enacted in early 1991 continued the government's efforts to provide incentives for private investment in research and development and high-technology sectors of the economy. Economic development in the late 1990s focused on a continuing privatization of government enterprises, the opening of the Taiwan market to foreigners, and high investment in the technological sector.

Taiwan's six-year national development plan for 2002–08 is titled "Challenge 2008." It is estimated to cost \$75 billion and has seven specified goals: 1) expanding the number of products and technologies that meet the world's highest standards; 2) doubling the number of foreign visitors; 3) increasing expenditures on research and development to 3% GDP; 4) reducing unemployment to less than 4%; 5) increasing the average growth rate to over 5%; 6) increasing number of broadband internet users to over 6 million; and 7) creating about 700,000 jobs. There are 10 major areas of emphasis, including cultivating talent for the E-generation (with a special emphasis on mastering English); developing the cultural arts industry; developing a digital Taiwan, using information technologies to make government more efficient and industries more competitive; developing Taiwan as a regional headquarters for multinational corporations; and constructing culturally rich hometown communities as a means of retaining talent, in addition to more standard goals of increasing value-added, improving the transportation infrastructure, conserving water resources and doubling the number of tourists.

### 40 SOCIAL DEVELOPMENT

A social insurance system provides medical, disability, old age, survivor, and other benefits, with employers paying 4.6% of payroll and workers contributing 1.3% of earnings. Benefits are paid in lump sums depending on years of contribution. The National Health Insurance Bureau provides medical care for all workers and dependents. Firms with five or more employees are required to fund a workers' compensation program, contributing up to 3% of payroll, depending on risk level of work. Unemployment benefits are funded by employers, employees, and the government.

All enterprises and labor organizations must also furnish welfare funds for workers and "welfare units," such as cafeterias, nurseries, clinics, and low-rent housing. Fishermen, farmers, and salt workers have their own welfare funds. Government



programs include relief for mainland refugees, calamity-relief assistance, and direct assistance to children in needy families.

Most laws discriminating against women in regard to property, divorce, and child custody were only eliminated in the latter part of the 1990s. Among other measures, laws passed during this period allowed married women to retain their maiden names, gave them an equal voice in child custody disputes, and clarified their property rights. The law now provides for equitable distribution of conjugal property in divorce cases. In the workplace, women tend to receive lower salaries and less frequent promotion, and are often denied federally mandated maternity leave. Taiwanese women married to foreigners may not transmit their citizenship to their children. Violence against women, especially domestic abuse, is extremely widespread. Child abuse is also a serious problem. The Child Welfare Act mandates that any citizen aware of child abuse or neglect must report it to the authorities.

Human rights are generally well respected, but some cases of police abuse continue to be reported.

#### 41 HEALTH

As a result of improved living conditions and mass vaccinations, significant progress has been made in controlling malaria, tuberculosis, venereal disease, leprosy, trachoma, typhoid, diphtheria, and encephalitis. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 14.2 and 6.1 per 1,000 people. The infant mortality rate was 6.8 per 1,000 live births and life expectancy was 76.7 years. At the end of 1985, Taiwan's public health facilities included 55 general hospitals and 888 health stations. In 1990, there were 22,300 doctors.

#### 42 HOUSING

The evacuation of more than two million persons from the mainland to an already densely populated island in 1949 made the provision of low-cost housing an early priority. By 1979, more than 150,000 units of public housing had been built. Since the 1970s, government housing programs have focused on the cities, with slum clearance and the construction of high-rise apartment dwellings for low-income groups the major priorities. Two new towns were constructed in the early 1980s and a third was planned. The government set a target of 600,000 new housing units for the 1979–89 decade, but only 236,106 units were completed as of 1986. In 2000, the total housing stock was at about 6,993,099 units with about 3.4 people per dwelling. About 83% of all dwellings were owner occupied.

#### 43 EDUCATION

Taiwan enjoys one of the world's highest literacy rates because of its emphasis on education. In 1997 about 93% of people ages six or older were estimated to be literate. All children receive nine years of free and compulsory education provided at government expense, including six years in public primary school and three years in junior high. Salaries of the teaching staff are paid by local governments. While textbooks and tuition are free, children must buy their own notebooks and pencils. In 1968 the curriculum was revised with more emphasis on science, while maintaining the Chinese cultural tradition. In order to attend high school, students must pass an examination after junior high. After completing nine years of compulsory schooling, approximately 90.7% of students in the latter half of the 1990s continued their studies at a senior high or vocational school. Agriculture, engineering, commerce, maritime navigation, home economics, and nursing are some of the skills taught in vocational schools, which offer three-year programs.

As of 1997, Taiwan had over 100 institutions of higher education. More than 100,000 students take the joint college entrance exam each year. Approximately 61.9% of the candidates are admitted to a college or university. The government relaxed

many restrictions which prevented students from studying abroad in the 1980s. Although Taiwan has a highly developed college curriculum, many students do travel abroad to study. Taiwanese college and graduate students are particularly interested in engineering, computer science, natural science, and business management. In the latter half of the 1990s, about 13,000 students annually pursued graduate study in the United States.

#### 44 LIBRARIES AND MUSEUMS

The National Central Library in T'aipei holds more than 1,615,000 items, including a collection of rare Chinese books (180,000 volumes). The National Taiwan University in T'aipei has more than 1,500,000 volumes in collected holdings.

The major museums, all in T'aipei, are the National Palace Museum, National Museum of History, and the Taiwan Museum. The National Palace Museum houses one of the world's largest collections of Chinese art—the collection consists primarily of treasures brought from the mainland. The Taipai Contemporary Arts Museum was completely renovated in 2001. The National Museum of History, founded in 1955, has more than 30,000 items in its collections of oracle bones and ritual vessels of the Shang and Chou dynasties, earthenware of the Sui and T'ang dynasties, stone engravings of the Han dynasty, and jade articles of the Chou dynasty. The Taiwan Museum has the most complete collection of natural history specimens in the country. The National Taiwan Science Education Center in T'aipei houses a planetarium and scientific exhibits.

#### 45 MEDIA

Telecommunications services are owned by the government. By 2000 there were 12.5 mainline telephone subscribers in Taiwan with an additional 16 million cellular phone subscribers. Nearly all telephone service is automatic. The postal service is managed by the Directorate General of Posts under the Ministry of Communications.

Radio broadcasting stations in Taiwan are under the supervision of the Ministry of Communications. As of 1999 there were 218 AM and 333 FM radio stations and 29 television stations. The largest network is the Broadcasting Corp. of China, which operates three systems: an overseas service, known as the Voice of Free China; the mainland service, known as the Central Broadcasting Station, aimed at the Chinese mainland; and the domestic service. These stations broadcast in 14 languages and dialects. Television was introduced in 1962. In 1997 there were 386 radios and 48 television sets per 1,000 population. In 2001, there were 11.6 million Internet subscribers served by about eight service providers.

The leading newspapers and estimated 2002 daily circulation are as follows:

	CIRCULATION
T'AIPEI	
<i>United Daily News</i>	1,200,000
<i>China Times</i>	1,200,000
<i>Central Daily News</i>	600,000
<i>Min Sheng Daily</i>	556,640
<i>Liberty Times</i>	500,000
<i>Taiwan Hsin Sheng Pao</i>	460,000
<i>China Times Express</i>	400,000
TAINAN	
<i>China Daily News</i>	670,000

The Central News Agency was established on the mainland by the KMT in 1924.

Though authorities generally respect constitutionally provided rights to free speech and free press, these rights are formally circumscribed by a law excluding the advocacy of communism or division of national territory. Controls over radio and television are said to be under a process of liberalization and privatization.

## 46 ORGANIZATIONS

The most influential private organizations are the occupational or trade associations. These include associations of farmers, fishermen, trade unions, business leaders, and professional persons. Organizations devoted to social welfare and relief work are sponsored by the government, by religious groups, and by civic clubs. The Taiwan Federation of Chambers of Commerce has branches in all the principal cities.

Cooperatives are an important adjunct to economic life, especially in the urban centers. In rural areas, agricultural cooperatives help the farmers transport and market special farm products such as fruits, tea, citronella oil, and handicrafts. Cooperative farms, organized with the help of the government, operate either on a community basis, with the products distributed among the members, or on an individual basis, with the cooperative functioning as a purchasing, processing, and marketing agency.

Agricultural services and 4-H clubs in various parts of Taiwan provide training and social activities for boys and girls. Both the YMCA and YWCA are active in Taiwan, as is Little League baseball. Cultural and educational organizations include the Historical Research Commission of Taiwan and Modern Fine Arts Association of Southern Taiwan. Social action groups include the Taiwan Grassroots Women Worker's Center and the Taiwan Association of Human Rights.

## 47 TOURISM, TRAVEL, AND RECREATION

T'aipei is the chief tourist attraction, with such popular sites as the seat of government in Presidential Square, Lungshan Temple, and the nearby National Palace Museum and famous Yangmingshan Park. Attractions outside the capital include Shihmen Dam recreation area, Lake Tzuhu, and the mausoleum of Chiang Kai-shek. The many temples and Dutch relics of T'ainan, Taiwan's oldest city, and Sun Moon Lake near T'aichung also attract numerous visitors. The national sports are baseball, soccer, and basketball.

In 2000, tourist arrivals totaled 2,624,037, of whom 65% were from East Asia and the Pacific. Tourism receipts totaled US\$3.7 billion. Hotel construction has boomed as a result of government investment. In 2000, there were 19,928 rooms. Visitors need a valid passport and tourist visa good for two weeks to 60 days.

In 2002, the US State Department estimated that the daily expense for a stay in T'aipei was US\$232.

## 48 FAMOUS TAIWANESE

Among the many Chinese scholars who have lived in Taiwan since 1949 are Hu Shih (1891–1962), philosopher and president of the Academia Sinica; Chiang Monlin (1886–1964), educator and chairman of the Joint Commission on Rural Reconstruction; Li Chi (1896–1979) and Tung Tso-pin (1895–1963), archaeologists, whose discoveries at the Anyang site laid the foundation for modern Chinese archaeology; and Tsiang Ting-fu (Ting-fu Fuller Tsiang, 1895–1965), historian and long-time delegate to the UN. Chang Ta-chien (1899–1983) is known for his painting of landscapes and figures and his copies of the famous Buddhist mural paintings of Tunhwang caves in Gansu Province. Lin Yutang (1895–1976), poet, philosopher, lexicographer, and historian, was one of China's foremost interpreters for Western cultures.

The outstanding political and military figure of Nationalist China and postwar Taiwan was Chiang Kai-shek (Chiang Chung-cheng, 1887–1975), who was responsible for sustaining the spirit of anticommunism in Taiwan. His son, Chiang Ching-kuo (1910–88), assumed leadership of the Taiwan government from Chiang Kai-shek's death to his own.

## 49 DEPENDENCIES

Taiwan has no territories or colonies.

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# TAJIKISTAN

Republic of Tajikistan

*Jumhurii Tojikistan*

**CAPITAL:** Dushanbe

**FLAG:** The flag consists of a broad white horizontal stripe in the center, with a red stripe at the top and a green stripe at the bottom. The national emblem is centered in the white stripe.

**ANTHEM:** The flag consists of a broad white horizontal stripe in the center, with a red stripe at the top and a green stripe at the bottom. The national emblem is centered in the white stripe.

**MONETARY UNIT:** The Tajik ruble (TR) was replaced by the somoni in October 2000. s1 = \$0.3125 (or \$1 = s3.20) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1 January; Navruz ("New Day"), 21 March; Independence Day, 9 September.

**TIME:** 6 PM = noon GMT.

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

Tajikistan is located in central Asia, between Uzbekistan and China. Comparatively, it is slightly smaller than the state of Wisconsin with a total area of 143,100 sq km (55,251 sq mi). Tajikistan's boundary length totals 3,651 km (2,269 mi).

Its capital city, Dushanbe, is located in the western part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Tajikistan features the Pamir and Alai mountains which dominate the landscape. The western Fergana Valley lies in the north with the Kafirnigan and Vakhsh valleys in the southwest. The major geographic feature in the south is the Panj River, which separates southern Tajikistan from northern Afghanistan. About 5% of Tajikistan's land is arable.

## <sup>3</sup>CLIMATE

The climate is semiarid to polar in the Pamirs. The mean temperature in July is 30°C (86°F). The mean temperature in January is 0°C (32°F). Rainfall in most of the country averages 70 to 160 cm (28 to 63 in).

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

Wildflowers can be found in the valleys and Marco Polo sheep, yak, and snow leopards can be found in the mountains.

## <sup>5</sup>ENVIRONMENT

Industrial emissions and excessive use of pesticides are leading causes of environmental damage in Tajikistan. Over the last 30 years, increased irrigation to support agricultural activity has resulted in harmful levels of soil salinity, which damage the soil and threaten its productivity.

The nation's water supply is threatened by pollution and inadequate sanitation facilities. Overutilization of the shrinking Aral Sea for irrigation purposes has caused it to become polluted. Only 47% of the nation's rural population have access to safe drinking water. As of 2001, 4.1% of the country's total land area

is protected. Five mammal species and nine bird species are threatened. Threatened species include the argali, Aral salmon, Tadjik markhor, tiger, and snow leopard.

## <sup>6</sup>POPULATION

The population of Tajikistan in 2003 was estimated by the United Nations at 6,245,000, which placed it as number 99 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 42% 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 0.86%, with the projected population for the year 2015 at 7,252,000. The population density in 2002 was 44 per sq km (114 per sq mi). The northern and western lowlands have the greatest population density.

It was estimated by the Population Reference Bureau that 28% of the population lived in urban areas in 2001. The capital and largest city, Dushanbe, had a population of 523,000 in that year. Khojand (formerly Leninabad) had a population of about 163,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.3%.

## <sup>7</sup>MIGRATION

As a result of the civil war that began in 1991, more than 600,000 people were internally displaced, and 60,000 were forced into Northern Afghanistan by January 1993. Also between 1991 and 1995, 300,000 Russians, 30,000 Ukrainians, and 10,000 Belarussians all left Tajikistan. By April 1997, virtually all of the internally displaced people had returned to their homes. When the peace agreement was reached in June 1997, the UNHCR completed the repatriation of Tajik refugees from northern Afghanistan to Tajikistan. In 1998 the UNHCR started the voluntary repatriation of Tajik refugees from other countries. By 1999, some 20,000 refugees had returned to their places of origin. The net migration rate in 2000 was -10.3 migrants per 1,000 population. The total number of migrants that year was 330,000 including refugees. The government views the

emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

In 2002, Tajiks constituted 64.9% of the population and Uzbeks (who live in the northwest) 25%. The Russian population, declining because of emigration, comprised only 3.5%, down from 7.6% in 1989. Other varied ethnic groups made up the remaining 6.6%.

## 9 LANGUAGES

Tajiki is an Indo-European language, related to Farsi and Pashto. In 1989, Tajiki became the sole official language of the country, displacing Russian and Uzbeki. Since 1995, Russian, which had retained its status as the language of international communication in government and business, has regained its previous status, albeit alongside Tajiki. Uzbeki is spoken in regions predominantly inhabited by Uzbeks.

The Tajiki language has no genders or cases, and its vocabulary is borrowed from Arabic, Uzbeki, and Russian. Since the 1940s, the Tajik alphabet has been a modified version of the Russian Cyrillic alphabet. Since the adoption of Tajiki as the national language, instruction of the Arabic-based Persian alphabet in schools has been encouraged, with teaching materials provided by Iran.

## 10 RELIGIONS

An estimated 95% of citizens consider themselves to be Muslims, but the degree of observance varies widely. About 3% of these are Ismailis, almost all residing in the remote Gorno-Badakhshan region. About 90% of the Muslim population is Sunni and about 4% are Shi'a. There are approximately 230,000 Christians, mostly ethnic Russians. The largest Christian group is Russian Orthodox; however, there are also Baptists, Roman Catholics, Seventh-Day Adventists, Korean Protestants, Lutherans, and Jehovah's Witnesses. Other religious minorities include Baha'is, Zoroastrians, Hare Krishnas, and Jews, each totaling less than 1% of the population.

## 11 TRANSPORTATION

Some 482 km (298 mi) of railroads are in common carrier service (not including industrial lines) in Tajikistan. A 258-km (160 mi) line connects Dushanbe with Termez, Uzbekistan, and ultimately with the other rail systems of the former Soviet Union.

In 2002, there were some 29,900 km (18,580 mi) of roadways, of which 21,400 km (13,298 mi) were hard-surfaced. The major roads connect Khudzhand in the north to Kulyab in the south via Dushanbe. Only one main road services the eastern Gorno-Badakhshanskaya region, meandering from Khrugh to Kyrgyzstan. Transportation in urban areas has suffered in recent years, primarily because supplies of gasoline from Russia have become unreliable. Roads connecting residential suburban areas with cities are not designed to handle large volumes of commuter traffic. Dushanbe has a system of electric trolleys and gas powered buses, but operation has been erratic due to a lack of spare parts and fuel.

Tajikistan had 53 airports at last estimate, of which 2 had paved runways. In 2001, the country's airlines carried 274,100 passengers on scheduled domestic and international flights.

## 12 HISTORY

The territory of Tajikistan has been continuously inhabited since the early Stone Age. The first Central Asian states of Sogdia and Bactria in the first millennium BC, included portions of Tajikistan. The territory was Persian-controlled from the 6th century BC, until conquered by Alexander the Great in 329 BC. Much of Tajikistan was included in the Greco-Bactrian kingdom in 3rd century BC, and after displaced by the Tochari tribes who invaded

Sogdia a century later. The Kushana kingdom was established in the first centuries of the Christian era, when a number of cities were established, and agriculture and commerce grew. In the 5th and 6th centuries, parts of Tajikistan were conquered by nomadic tribes, the Chionites and, later, the Ephthalites.

At the end of the 6th century the large Ephthalite empire was displaced by the Eastern Turkic Kaganate. Arabs conquered the area in the 8th century, introducing Islam. Later in the 9th century they were displaced by the Samanides, who encouraged the development of trade and of material culture. From the 10th to the 13th centuries a number of kingdoms succeeded one another in Central Asia; among the ones which included parts of Tajikistan were the Ghaznavids, the Karakhanids, the Ghorids, the Karakitai, and the Khwarazmites.

In 1219–1221 Genghiz Khan's troops conquered the entire area, destroying many cities. Tajikistan became part of the lands given to Genghiz Khan's son, Chagatai. In the 14th century Timur (Tamerlane) created a large empire, with its capital in Samarkand. In the 16th century Tajikistan was conquered by the Sheibanids, who had their capital in Bukhara. Portions of territory were included later in the Ashtarkhanid state and then in the Kokand Khanate, which emerged in the Fergana Valley in the mid-18th century. Present-day Tajikistan was split between the Khanates of Bukhara and Kokand in the 18th and 19th centuries.

In 1863, Russia asserted a right to exercise dominance in Central Asia, and began the military conquest of the khanates. Bukhara and Samarkand were incorporated into Russia in 1868. Kokand was eliminated in 1876, and the border with Afghanistan was set by accord with England in 1895. At that point, part of Tajikistan was in the Emirate of Bukhara, part was in Turkestan. When the Tsar's draft call-up of 1916 was announced, rebellions broke out all over Central Asia, including in Tajikistan. These were suppressed, at great loss of life.

Northern Tajikistan was conquered by the Bolsheviks in 1918, who extended control to the rest of the country when Bukhara was captured, in 1920. Muslim guerrilla warfare termed the Basmachi Rebellion was finally suppressed in 1924. Tajikistan was established as an autonomous republic within the Uzbek Soviet Socialist Republic in 1924. The republic became a full Soviet Socialist Republic in 1929.

Border delineations in Central Asia were very arbitrary. For several hundred years educated Central Asians had used Persian and Turkic languages essentially equally, so that separation into Turkic-speaking Uzbeks and Persian-speaking Tajiks, as if to create separate nationalities, was primarily administrative. Bukhara and Samarkand, the major Tajik cities, were included in Uzbekistan, while Tajikistan was left only with smaller cities, and little arable land. People were forced to assume one nationality or another.

In the late Soviet period Tajikistan was the poorest and least developed of the republics. It comprised four separate areas, the elites of which competed for power. Traditionally power was held by people from Khojent, which is geographically and culturally closest to Uzbekistan's Fergana valley. They were contested by families and clans from Kulyab, south of Dushanbe. Poorest were people from the Gorno Badakhshan Autonomous Province, most of which is in the Pamir Mountains. The final area was Kurgan-Tyube, in the extreme south, where the influence of Islam was strong; public calls for establishing an Islamic state were heard there as early as 1976.

In 1985, Mikhail Gorbachev replaced longtime republic leader Rakhmon Nabiyev with Kakhar Makhkamov, whose control never penetrated to the most local levels. Riots in February 1990 exposed his weaknesses, and encouraged a proliferation of political parties and groups. When the August 1991 Soviet coup attempt came, Makhkamov was the only republic leader to welcome it. When the coup failed, Makhkamov was forced to resign, and Nabiyev returned to power.



LOCATION: 15°0' N; 39°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,651 kilometers (2,269 miles); Afghanistan, 1,206 kilometers (749.4 miles); China, 414 kilometers (257.3 miles); Kyrgyzstan, 870 kilometers (541 miles); Uzbekistan, 1,161 kilometers (721.4 miles).

The republic declared independence on 9 September 1991, and presidential elections were hotly contested 27 October 1991. Nabiyeu used communist control of the media and cells in the workplace to influence the election. Despite this influence, his opponent Davlat Khudonazarov, a popular filmmaker, received more than 30% of the vote. Opposition to Nabiyeu continued, however, resulting in massive demonstrations and the formation of a national guard by Nabiyeu and militias by the oppositionists. In April 1992, demonstrators for and against Nabiyeu took over two public squares in Dushanbe, about a mile apart. Clashes between the two caused several deaths, and tensions mounted. In May, the Russian garrison in Dushanbe stepped in to mediate tensions, brokering a compromise that called for Nabiyeu to form a coalition government in which one-third of the ministerial posts would go to oppositionists. Nabiyeu named his supporter,

Akbarsho Iskandarov, the new legislative speaker to help form a coalition government, and brought token democrats and Islamists into the government, including Kazi-kolon Khojiakbar Turajonzoda, the senior Muslim cleric in the republic.

Civil disorder grew throughout summer 1992. In August 1992, Nabiyeu was seized at gunpoint and forced to resign, and Iskandarov assumed control of the government. By this time full civil war had erupted, with thousands of casualties. In November, Iskandarov gave up his efforts to govern, and Uzbekistan and Russia joined in the efforts by hard-liners to drive the Iskandarov government and its supporters out of the country, mostly into neighboring Afghanistan. The rump Supreme Soviet, dominated by hard-liners, met in Khojand, and Imomali Rakhmonov became the leader. Rakhmonov, a Kulyabi, was a former collective farm chairman linked to a major hard-line warlord.

Kulyabi and Khojenti hard-liners, assisted by Uzbekistan and Russia, launched a successful counteroffensive that by the end of 1992 had resulted in 20,000-40,000 casualties and up to 350,000 refugees or displaced persons, about 80,000 of whom fled to Afghanistan.

In 1993, the Commonwealth of Independent States (CIS) authorized "peacekeeping" in Tajikistan under the auspices of its Collective Peacekeeping Forces (CPF) treaty to protect what Russia terms "CIS borders." CPF consisted of Russia's 201st Rifle Division, based in Tajikistan, and token Kazakh, Kyrgyz, and Uzbek troops (the Kyrgyz and Uzbek troops pulled out in 1998-99). Russian media reported in late 1999 that there were about 20,000 CPF, border, and other Russian troops in Tajikistan. The commander of the CPF troops in August 1999 stated that the role of his forces had largely shifted to the delivery of humanitarian cargoes, clearing mines, and giving medical assistance. Nonetheless, plans to withdraw the CPF have not been announced, perhaps because in April 1999, Russia and Tajikistan signed a basing agreement for the 25-year presence of Russian troops.

After Tajik government and opposition emissaries agreed to a cease-fire in September 1994, the UNSC formally established a UN Mission of Observers in Tajikistan (UNMOT) in December 1994 with a mandate to monitor the cease-fire, later expanded to investigate cease-fire violations, monitor the demobilization of opposition fighters, assist ex-combatants to integrate into society, and offer advice for holding elections. The UN reported in late 1999 that UNMOT comprised 167 civilian staff and 37 military observers. The mission successfully accomplished its assigned tasks and on 15 May 2000 its mandate was terminated.

In November 1994, Rakhmanov held presidential elections in an attempt to legitimize his government. The main Tajik opposition groups boycotted this election and a constitutional referendum because they had no say in drawing up the draft constitution and would not be allowed to field their own candidates. Only one candidate besides Rakhmanov was permitted to run, Abdumalik Abdullojanov, a prominent politician in the northern Leninabad region and a former Tajik prime minister. Rakhmanov was elected president by a wide margin and his constitution was overwhelmingly approved. The Organization for Security and Cooperation in Europe (OSCE) declined to send monitors because it viewed the electoral process as not meeting its standards. Elections to a new 181-member legislature took place in February 1995. Four parties were allowed to compete, but restrictive nomination procedures ensured that about 40% of candidates ran unopposed. The election excluded virtually all opposition parties, and Western groups refused to monitor the "seriously flawed" vote.

In December 1996, the two sides agreed to set up a National Reconciliation Commission (NRC), an executive body composed equally of government and opposition emissaries. On June 27, 1997, Rakhmanov and United Tajik Opposition (UTO) leader Seyed Abdullo Nuri signed the comprehensive peace agreement, under which Rakhmanov remained president but 30% of ministerial posts were allocated to the opposition and Nuri headed the NRC.

As part of the peace process, in early September 1999, the Tajik legislature set presidential elections for 6 November 1999. Only after a popular referendum approved constitutional changes in late September, however, were the opposition Islamic Renaissance and Democratic parties legalized and allowed to gather 100,000 signatures to register nominees. Nominees complained that they did not have enough time to gather signatures and that Rakhmanov's appointees at the local level blocked signature-gathering. The Central Electoral Commission (CEC), controlled by Rakhmanov, then pronounced him the only candidate. This prompted the resignation of opposition members of the NRC and calls for an electoral boycott. To provide the

gloss of a multi-candidate race, the CEC "registered" IRP nominee Davlat Usmon, though he refused to run. The CEC announced that 98% of 2.85 million Tajiks had turned out and 96.9% had voted for Rakhmanov, and only 2% for Usmon. Seeking to avert renewed civil war, Nuri agreed on 5 November to respect the outcome of the election and rejoin the NRC in return for pledges by Rakhmanov to allow fair legislative elections that were held in March 2000.

On 26 March 2000, Tajikistan disbanded its National Reconciliation Commission (NRC), created to implement 1997 peace accords ending the civil war. The accords set legislative elections held in March as the culmination of the peace process. Former rebel Seyed Abdullo Nuri, chairman of the NRC, called for quick settlement of remaining peace issues. The UN Security Council on 21 March praised the legislative elections and work of the NRC, and withdrew UN observers in May 2000.

Although benchmarks of the peace process have been largely met, including the return of refugees, demilitarization of rebel forces, legalization of rebel parties, and the holding of presidential and legislative elections, stability in Tajikistan remains fragile.

The Islamic Movement of Uzbekistan (IMU), a radical Islamic organization seeking to establish an Islamic state in Central Asia, carried out operations in Tajikistan in the summer of 2000. Tajik authorities increased the number of customs checkpoints and deployed additional military troops to prevent the infiltration of Islamic militants. In addition to the IMU, the Hizb-ut-Tahrir ("Freedom Party"), another radical Islamic organization, operates in the country, although unlike the IMU, it is non-violent. Following the 11 September 2001 terrorist attacks on the United States, and its subsequent military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces, all radical Islamic groups in the Central Asian nations were linked to terrorism. Tajikistan became a strategic partner in the US-led anti-terrorism campaign when it offered the use of its airports. Leaders of Tajikistan's opposition Islamic Renaissance Party (IRP) have vigorously denied Rakhmanov's claim that it promotes extremism, and accuse him of using the US-led campaign against terrorism to neutralize his mainstream Islamic political opponents.

In April 2001, Rakhmanov and Russian President Vladimir Putin agreed on the establishment of a 3,000-man tactical air base in Tajikistan. Russia announced it would increase its border troops along the Tajik-Afghan border. It is Russia's goal to establish a rapid reaction military presence in Central Asia.

### 13 GOVERNMENT

The Tajik government has been in a state of flux as it has implemented the comprehensive peace settlement. President Rakhmanov retains extensive power and his supporters from the Kulyab region remain dominant in the government, though some high-level posts have been given to the opposition.

According to a Rakhmanov-designed constitution approved by referendum in November 1994, the Oliy Majlis (legislature) enacts laws, interprets the constitution, determines basic directions of domestic and foreign policy, sets dates for referenda and elections, and approves key ministerial and other appointments. The legislature also approves the state budget, determines tax policy, ratifies treaties, and approves a state of war or emergency as decreed by the president. The constitution also calls for creation of a presidium to "organize work," to be elected by the legislators and to be headed by the speaker. Laws are required to be passed by a two-thirds majority of the total number of deputies, and a presidential veto may be overridden by the same margin. The prime minister is appointed by the president. The Tajik legislature in June 1999 rubber-stamped constitutional changes proposed by Rakhmanov calling for a seven year presidential term, a two-house Supreme Assembly

(legislature), and the legalization of religious parties. A popular referendum approved the changes on 26 September 1999.

An electoral law was approved with input from the opposition on 10 December 1999. The law calls for the upper legislative chamber, the National Assembly (representing regional interests), to consist of 33 members, and the lower chamber, the Assembly of Representatives, 63 members.

Elections to the lower legislative chamber were set for 27 February 2000 (and a runoff on 12 March). In all, 191 candidates contested 41 single mandate seats and 107 candidates on six party lists competed for 22 seats. Turnout was reported by the CEC at 93.23% of 2.87 million voters. In the party list voting, Rakhmanov's People's Democratic Party (PDP) won fifteen seats, the Communist Party won five seats, and the Islamic Renaissance Party won two seats. Twenty-seven single mandate seats were filled in the 1st round, and twelve in the 2nd. Most winners of these seats are PDP members. Over 107 UN and OSCE observers monitored the race. They praised the "political pluralism" of the vote, since voters "were presented with a genuine and broad range of alternatives," but concluded that the electoral process must be improved "to meet the minimum democratic standards for equal, fair, free, secret, transparent, and accountable elections." They raised questions about freedom of the media, the independence of electoral commissions, the questionable de-registration of some candidates, apparently inflated turnout figures, and the transparency of vote tabulation. Thirty-three upper legislative chamber seats were filled on 23 March by indirect voting by local assemblies and the appointment of eight members by Rakhmanov. The UN Security Council on 21 March praised the legislative elections and work of the NRC, and withdrew UN observers in May 2000.

According to the US State Department's *Country Reports on Human Rights Practices for 2001*, Tajikistan is an authoritarian regime that has established some nominally democratic institutions. Although the 2000 parliamentary elections improved citizens' right to change their government, this right remained restricted. Tajik government security forces in 2001 were responsible for some killings and beatings of detainees, and also engaged in threats, extortion, looting, and other abuse of civilians. Prison conditions were life threatening, and the judicial system was subject to political and paramilitary pressure. Opposition forces were responsible for serious abuses of civilians, including killing, kidnaping, threats, and extortion. The November 1999 presidential election was not viewed by the OSCE as "free and fair." In December 1999, Rakhmanov issued a decree pledging to "contribute in every way possible to the exercise of freedom of speech, freedom of the press, and the right of access to the news media" as part of the comprehensive peace settlement.

#### 14 POLITICAL PARTIES

As part of the ongoing peace process, all parties had to undergo re-registration by March 1999. The parties registered at that time were the People's Democratic Party (PDP), Communist Party (TCP), the Party of Justice and Progress, Socialist Party, the Democratic Party ("Tehran platform"), Agrarian Party, and the Party of Justice and Accord. The main opposition parties were registered later. In late 1994, Rakhmanov orchestrated the creation of the PDP, and in April 1998 became its head. The TCP is headed by former Rakhmanov client Shodi Shabdolov. The TCP has fallen into Rakhmanov's disfavor, and some of its assets were nationalized in May 1998. A social democratic Party of Justice and Progress was formed by intellectuals and others in April 1998. The Democratic Party, founded in 1990, was banned in 1993. It split in 1994, with one new group forming the "Tehran platform." The remaining wing ("Almaty platform") was reregistered in December 1999. The main parties of the United Tajik Opposition (UTO) are the Democratic Party

(Almaty platform) and the Islamic Rebirth Movement (primarily the Islamic Renaissance Party, IRP). The Society of Lali Badakhshan split from the UTO in 1999. The IRP was registered in September 1999. The IRP has traditionally drawn its strength from many unofficial (as opposed to state-sponsored) Islamic clerics. Emboldened by international support for Tajikistan's role in aiding the US-led coalition in its war against terrorism beginning in 2001, Rakhmanov has implied that connections exist between the IRP and the radical Islamic organizations Hizb-ut-Tahrir and the Islamic Movement of Uzbekistan (IMU). The IRP has vigorously denied any connections to these groups.

#### 15 LOCAL GOVERNMENT

In the late Soviet era the republic was divided into three oblasts or regions and the Gorno Badakhshan Autonomous Region. The region surrounding the capital, Dushanbe, also was separately administered by the central government. A new region, Khatlon, was formed by Rakhmanov, comprising the former Qurghonteppa and Kulyab regions. Currently, there are two provinces (*viloyat*), Khatlon and Sughd, and one autonomous province, Gorno Badakhshan. Uzbekistan has some influence in the northern Leninabad (Khojenti) region, while Russian troops patrol the borders with Afghanistan and China. Regions, districts (*nobiy*, of which there are 52), and cities (*shahr*, of which there are 17), are governed by elected assemblies of people's deputies headed by a chairman. The chairman is appointed by the president, and the national legislature can dissolve local assemblies if it decides they are breaking the law. The self-governing authority of settlements (*shabrak*, of which there are 46) and villages (*deba*, of which there are 358) is the *jamoat* (local organization).

#### 16 JUDICIAL SYSTEM

The judicial system from the Soviet period remains largely in place. There are courts at the city, district, regional, and national levels with a separate but parallel system of military courts. National level courts include a supreme court, a constitutional court, a supreme economic court, and a military court. Regional and national level courts function in an appellate capacity to the lower courts. The establishment of extraordinary courts is forbidden.

The president appoints judges and the procurator general to five-year terms with confirmation by the legislature, and the president has the power to dismiss them. The court system suffers from a lack of trained judges and lawyers and from pressures applied by local political factions and the central government.

The law requires public trials except in cases involving national security or protection of minors. There is a right to appointed counsel in criminal cases. As in the Soviet period, the procurators are responsible for arrests, investigations, and prosecutions of defendants.

#### 17 ARMED FORCES

There were an estimated 6,000 personnel in the armed forces in 2002. The army was equipped with 35 main battle tanks. The air force had some 800 personnel, operating 4 or 5 armed helicopters and no combat aircraft. A plan exists to acquire aircraft and form an air squadron. There were an estimated 1,200 paramilitary border guards. The defense budget for 2001 was \$35.4 million, or 3.9% of GDP. Russia had 12,000 federal border guards in Tajikistan. An opposition Islamic movement of 5,000 signed a peace agreement with the government in 1997 and was in the process of being integrated into the government forces.

#### 18 INTERNATIONAL COOPERATION

Tajikistan became a member of the UN on 2 March 1992. It also is a member of the Asian Development Bank, ESCAP, FAO, OSCE, IAEA, IMF, IDA, IFAD, ILO, NACC, UNCTAD,

UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and the World Bank, and is applying for membership in other international organizations. It has observer status at the WTO. A member of the CIS, the country is recognized by the United States and the EU countries. Western nations are especially concerned with the security of the country's uranium reserves. Tajikistan has especially close ties with Iran.

In June 2001, leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan met in China to launch the Shanghai Cooperation Organisation (SCO) and sign an agreement to fight ethnic and religious militancy while promoting trade.

## 19 ECONOMY

Tajikistan is the poorest of the post-Soviet republics with a per capita income in 2001 of less than \$300 (\$1,140 in purchasing power parity terms—PPP—terms) and an estimated 80% of the population below the poverty line. Two thirds of the labor force is still in agriculture, which is dominated by cotton production and accounts for 19% of GDP. Industry is poorly developed, providing 25% of GDP and only 7.5% of total employment, and consisting of one large aluminum smelter operating at a fraction of its capacity, electric power facilities producing only a fraction of the country's potential hydroelectric power, and small plants engaged in food processing and light industry, virtually all in need of upgrading and modernization. Imports provide the large majority of manufactured consumer goods. Deposits of nonferrous metals are significant but undeveloped.

Tajikistan's economy was among the most affected by the problems of transition from a command economy, with hyperinflation and the collapse of industrial production aggravated by a five-year, three-way civil war (1992 to 1997) that claimed 150,000 lives, produced thousands of refugees, and delayed the reforms needed to make the adjustment. Already beginning to falter in the late 1980s, GDP declined 0.6% and 8.7% in 1990 and 1991. Legislation in 1992 aimed at laying the groundwork for the transition to a market economy and creating conditions hospitable to foreign investment was overtaken by spiraling inflation and the outbreak of civil war in the that summer. The economy emerged dependent—on volatile world prices for cotton and aluminum, on neighbors Russia and Uzbekistan, on imports of capital goods, and on international humanitarian assistance for much of its basic subsistence needs. Inflation spiraled to 1500% in before being brought down to single digits—5% in 1996 and 2.7% in 1997—by a tight monetary policy, but GDP continued to shrink, by 12.4% in 1995 and by almost 17% in 1996. In all, GDP fell 32.6% 1991 to 1996. The financial crisis in Russia, source of 16% of Tajikistan's imports and market for 30% of its exports, was transmitted to the economy, throwing it back into double digit inflation. End of period inflation as measured by the consumer price index (CPI) reached 30.1% in 1999 and 60.6% in 2000 before being brought down by corrective actions to 12.5% in 2001. Nevertheless, after the ceasefire in 1997 Tajikistan has had five years of real GDP growth, 5% in 1998 and 3.7% in 1999, accelerating to 8.3% in 2000, 10.1% in 2001 and 9% in 2002.

The economy is far from out of the woods. Despite accumulated growth of more than 32% from 1997 to 2001 output had still only reached 43% of the 1991 level. Besides the damage done to the infrastructure during the civil war, the economy became saddled with a large external debt, estimated at 113% of GDP in 2000. By early 2003, progress had been made in reducing the relative size of the foreign debt to 88% of GDP (\$985 million), down from 98% the year before. Despite the concessional nature of most of its external finance, the grace periods have expired and substantial repayments are due, most to the IMF, and will likely require a Paris Club rescheduling. The increased cotton and aluminum production that is the basis of

recent growth, moreover, has contributed little to solving the country's unemployment and underemployment problems. The official unemployment rate for 2001 was 20% but observers estimate that the true figure is about one-third unemployed. Many Tajiks are forced to go abroad for work, and as of 2001, an estimated 500,000 to 700,000 live and work abroad, permanently or seasonally. With the formal economy failing to lift most of the population out of poverty, it is not surprising that added to the country's problems are reports of increased drug smuggling from neighboring Afghanistan. Tajikistan has rich mineral resources, including silver and tungsten and huge hydroelectric potential, but foreign investment in this politically and economically unstable region has been small to date, amounting to less than \$30 million in 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Tajikistan's gross domestic product (GDP) was estimated at \$7.5 billion. The per capita GDP was estimated at \$1,140. The annual growth rate of GDP was estimated at 8.3%. The average inflation rate in 2001 was 33%. 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 19% of GDP, industry 25%, and services 56%. Foreign aid receipts amounted to about \$25 per capita and accounted for approximately 16% of the gross national income (GNI).

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$282. 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 23%. Approximately 48% of household consumption was spent on food, 10% on fuel, and 14% on education. The richest 10% of the population accounted for approximately 25.2% of household consumption and the poorest 10% approximately 3.2%. It was estimated that in 2001 about 80% of the population had incomes below the poverty line.

## 21 LABOR

The labor force numbered approximately 3.2 million in 2000. Agriculture accounted for 67% of the workforce, with services 25%, and industry 8% in that year. Unemployment in 2001 was estimated at 20%.

With the demise of the Soviet Union, there is no longer the mandate for a single labor union structure. As of 2002, the Federation of Trade Unions remained the dominant labor organization even though it no longer is subordinate to the Communist Party. Approximately 90% of workers were unionized in 2002. Strikes are permitted after mandatory arbitration. Collective bargaining is permitted and practiced, although it is becoming less prevalent in the economic decline.

Employment in Tajikistan may legally begin at age 16, or at age 15 with local trade union permission. Children from the age of seven often help with harvests, but their work is considered "family assistance." The 40-hour workweek is standard. The minimum monthly wage was \$1.60, which does not provide a decent standard of living for the worker and family. An estimated 20% of industrial laborers worked in unhealthy or otherwise hazardous conditions, although it is believed that the number of persons working in substandard conditions is vastly underreported.

## 22 AGRICULTURE

Tajik agriculture relies extensively on irrigation. About 6% of the total area is cropland, although 23% is used for permanent



pastures. A network of canals expands agriculture into semidesert areas. Agriculture accounted for 19% of GDP in 2000. During 1990–2000, agricultural output shrank by an annual average of 5.8%.

Cotton is the major commercial crop; three irrigated valleys (Vakhsh, Kofarnihon, and Zeravshan) are the sites of most production. As a result of chronic problems with machinery and the lack of spare parts, machine harvesting is declining. The 1999 cotton harvest was 95,000 tons, but less than 10,000 tons were picked by machine.

Wheat is the staple grain and is grown mainly in the northern and southern plains. About one-third of the wheat crop is irrigated. In 1999, wheat production was 450,000 tons. Production has been declining in recent years because of lack of machinery and civil war. During the 1996/97 growing season, the government eliminated most of the state order for wheat, legalized contract farming, freed wheat prices, established commodity markets, and privatized 50,000 ha (124,000 acres) of land in order to encourage wheat production. Barley, potatoes, vegetables, and various fruits and melons are widely grown for domestic consumption.

Horticulture has been important since antiquity. Most orchards and vineyards are located in the northern valleys, where apricots, pears, plums, apples, cherries, pomegranates, figs, and nuts are grown.

### 23 ANIMAL HUSBANDRY

Livestock herding is a major part of Tajikistan's economy. As of 2001, the livestock included 1,000,000 chickens, 1,475,000 sheep, 1,062,000 cattle, 744,000 goats, and 72,000 horses. Meat production in 2001 included 14,800 tons of beef, 12,900 tons of mutton, and 1,800 tons of poultry. Livestock products in 2001 included cow's milk, 315,600 tons; goat's milk, 25,500 tons; cheese, 6,900 tons; wool (greasy), 2,200 tons; and silk, 300 tons.

### 24 FISHING

Some fishing occurs in the upper Amu Darya River; the Kayrakkum Reservoir, and the Syrdar'ya River. The total catch was 59 tons in 2000, primarily carp.

### 25 FORESTRY

Tajikistan's forests and woodlands occupied about 2.8% of the total land area in 2000. Forestry is of little commercial importance.

### 26 MINING

Tajikistan was significant to world mineral markets as a gold producer. It also possessed the largest deposits of antimony in the former Soviet Union, and had more than 400 explored mineral deposits, containing 70 types of minerals. Aluminum, zinc, lead, chemicals, fertilizers, and cement were the top industries in 2002, and aluminum was the country's leading export commodity.

In 2000, gold production was 2,700 kg (3,000 in 1998 and 1,100 in 1996); gypsum, 35,000 tons (31,700 in 1998); and antimony, 2,000 tons (1,000 in 1996). Tajikistan also produced bismuth, lead, mercury, silver, cement, and fluorspar. No copper, molybdenum, tungsten, or zinc has been produced in recent years. The Darvaz joint venture did not mine for gold in 1997–1999, because its equipment was severely damaged by hostilities in the region. Gold was mined southeast of Gharm, in the Pamir Mountains, in the Yakhsu Valley, in Chkalovsk, and in the Jilau, Taror, and Aprelevka deposits; mercury was mined at the Dzhizhikrutskoye deposit, north of Dushanbe; antimony, at Isfara and Dzhizhikrutskoye; arsenic, cadmium, tungsten, and lead-zinc, in the Yuzhno-Yangikanskiy deposit, north of the Zeravshan River; and uranium and graphite, northeast of Khudzhand. Uranium mining ceased in the mid-1980s.

Other metal and industrial resources included alunite, bauxite, iron, manganese, nepheline syenite, nickel, rare metals, selenium, strontium, tin, barite, boron, construction materials, dolomite, phosphates, precious and semiprecious stones, and salt.

## 27 ENERGY AND POWER

More than 95% of Tajikistan's electricity production is hydropower, provided by a series of dams and reservoirs on mountain rivers. As of 2002 seven large hydroelectric facilities produced most of the country's power. Two major facilities on the Vakhsh River have attracted aluminum, chemical, and other energy-intensive industries oriented toward inexpensive energy. The Qayroqqum Dam on the Syrdar'ya River in the north (which forms a reservoir known as the "Tajik Sea") has a hydroelectric station that provides energy for the Fergana Valley in Uzbekistan. Further expansion of hydroelectric power was planned, especially around Khojand, with the potential of exporting energy to Pakistan. In 2001, total installed electrical capacity was 4,443,000 kW. Production of electricity in 2000 amounted to 14 billion kWh, of which 98% was from hydropower and 2% from fossil fuels. Consumption of electricity in 2000 was 12.5 billion kWh.

Brown coal, though declining in production, is mined in the northeast and shipped by rail to Dushanbe; coal production totaled about 22,000 tons in 2000. Natural gas is extracted from fields in the lower Kakhsh and elsewhere; reserves have been estimated at about 5.7 billion cu m, but production has been minimal. Tajikistan also has small deposits of petroleum, estimated at 12 million barrels in 2002; production in 2001 amounted to only about 350 barrels per day, contrasted with consumption of 29,000 barrels per day in the same year. Tajikistan opened its first oil refinery, with a capacity of 400 barrels per day, in 2001.

## 28 INDUSTRY

A small number of state-owned enterprises dominate Tajikistan's industrial sector. The government's post-independence plans to extensively privatize industry have been hampered, first, by the five-year civil war 1992–1997, and then by the effects of the Russian financial crisis in mid-1998 that have put concerns about financial stability ahead of privatization. By early 1992, the state accounted for about 84% of asset ownership in the industrial sector, as compared to a high of 98% in the late 1980s. The civil war damaged an already weakly developed industrial sector, and basic security remains a concern. Industry in Tajikistan consists in sum of one large aluminum smelter, hydroelectric power installations and a number of small plants engaged in light industry and food processing. Virtually all are in need of upgrading and modernization.

Tajikistan's aluminum plant, the Tursunzade Aluminum Smelter (TADAZ), built in 1975 and located in Tajikistan because of access to cheap electric power, is the third-largest in the world, with a capacity of 517,000 tons a year. In 2001, it was operating at 25% capacity (producing 113,000 tons), down from 86.5% capacity in 1990 (producing 450,000 tons, the closest it has come to full capacity utilization.) The \$210 million earned in export revenues constituted 53% of total export receipts for the year. In 202, TADAZ's output increased to 307,000 tons, and plans are for it to reach 346,000 tons annual output by 2005. Almost all of its output is exported, though there are small downstream cable and foil operations. The plant directly employs 12,000 to 14,000, and indirectly supports a community of 100,000. The government announced its intention to sell shares in TADAZ, retaining a majority control. However, the plant has accumulated a large external debt, probably over \$100 million, lessening its attractiveness to outside investors. In early 2003, the IMF somewhat uncharacteristically advised against privatization of either TADAZ or the country's hydroelectric facilities.

Tajikistan is the world's third-largest producer of hydroelectric power, behind the United States and Russia. However, TADAZ uses about 40% of the country's electricity production, and Tajikistan has the lowest electricity usage rates among the former Soviet counties, enough for only a few hours a day of electricity in the winter. Furthermore, only about 5.5% of its hydroelectric power production potential has been developed. In 2001, only 16.5 billion kilowatt hours per year (kWh/y) out of a potential 300 kWh/y were produced, 3.9 billion kWh/y of which were exported. About 12 power projects are at some stage of construction but most are stalled for lack of financing. The energy shortage in turn has shut down much of the country's industry. About 85% of Tajikistan's current hydroelectric power is produced by stations along the Vakhsh River. The largest of these is at Nurik (11 billion kWh/y capacity). A larger facility (13.3 billion kWh/y) at Rogun on the Vakhsh is unfinished because of lack of financing related to concerns about both security and vulnerability to earthquake. If completed, the Rogan Dam would be the tallest in world at 335 m (1,105 ft). Even larger, although only in the planning stage, is a 14.8 billion kWh/y facility for Dashtijum on the Panj River along the Afghan border.

The production, transportation and distribution of electricity is under the state-owned joint-stock company Barki Tojik. Light industry includes the Tokof 1997, the government was in the process of privatizing Glavkhloprom, the state organization that controls the ginning and partly the selling of cotton fiber. In 2000, 18 cotton ginneries were sold at two auctions, bringing in a disappointing \$9 million. The food industry is the second-largest contributor to gross industrial output, processing domestically harvested fruit, wheat, tobacco, and other agricultural products. Aside from aluminum and other processed metals, the country's small intermediate and heavy industry subsectors produce engineering goods, hydroelectricity, power transformers, cables, and agricultural equipment.

## 29 SCIENCE AND TECHNOLOGY

The Tajik Academy of Sciences, founded in 1951 at Dushanbe, has departments of physical-mathematical, chemical, and technical sciences; earth sciences; biological and medical sciences; and ten associated research institutes. Tajik State University has faculties of mechanics and mathematics, physics, chemistry, geology, and biology. Tajik Abu-Ali Ibn-Cina (Avicenna) State Medical Institute was founded in 1939. Tajik Agricultural Institute was founded in 1951. Tajik Technical University was founded in 1956. All four educational institutions are in Dushanbe. In 1987-97, science and engineering students accounted for 17% of college and university enrollments. In the same period, Tajikistan had 666 scientists per million population engaged in research and development.

## 30 DOMESTIC TRADE

Although trade is still dominated by the state sector, the government has been working on programs to transfer of much of the retail and wholesale trade sector into private ownership. As of 1999, the government reported that most small enterprises were in private hands. Privatization of medium and large-sized businesses, land reform, and banking reforms are still in the works. Price liberalization lifted controls on most consumer and wholesale trade, although subsidies and lowered ceilings have been applied to staple goods like flour, sugar, oil, bread, meat, and children's footwear. Most large towns have large marketplaces, or bazaars, where individual merchants sell a variety of consumer goods, many of which are imported. Trade on the black market has expanded significantly in the growing economic disarray since independence.

## 31 FOREIGN TRADE

Aluminum, raw cotton, and textile products account for about 68% of Tajikistan's exports. Other exports include fruits and vegetable oils. Fuel, chemicals, intermediate industrial goods and equipment, manufactured consumer goods, textiles, and food are its principal import items. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	259	104	155
Netherlands	178	n.a.	n.a.
Uzbekistan	98	185	-87
Italy	20	17	3
Latvia	14	n.a.	n.a.
Kazakhstan	6	82	-76
Turkmenistan	5	29	-24
Ukraine	2	84	-82
Azerbaijan	n.a.	63	n.a.
Romania	n.a.	41	n.a.

## 32 BALANCE OF PAYMENTS

Foreign income earnings depend highly upon cotton exports; since independence, the centrally planned economy has suffered from the effects of civil war, the severing of trade relations with other former Soviet republics, and a series of natural disasters. Short term, high interest debt accumulated in 1993-94 resulted in a national debt exceeding \$780 million with debt service totaling \$12 million in 1995. About \$440 million of the total was owed to Russia, Uzbekistan, and Kazakhstan. Other major creditors include the United States, Turkey, China, and India. External debt totaled \$1.23 billion in 2000.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Tajikistan's exports was \$640 million while imports totaled \$700 million resulting in a trade deficit of \$60 million.

## 33 BANKING AND SECURITIES

The National Bank of Tajikistan (NBT) is the country's bank charged with implementing a monetary policy and issuing currency. It was formally established as the central bank in 1991. Commercial and state banks include the Bank for Foreign Investment, three large banks formed from the former Soviet state bank, and three branches from the Russian Commercial Bank. The Law on Banks and Banking Activities, adopted in February 1991, allows banks to compete for resources freely (including the setting of deposit rates) and lifts specialization boundaries. However, competition is very limited. Under IMF pressure, the Tajik government is now seeking to introduce tighter regulation over the banking sector.

There is no securities exchange.

## 34 INSURANCE

Until recently, the insurance sector in Tajikistan consisted of the state insurance company Gosstrakh only. The market was opened up in 1992. Gosstrakh remains the dominant provider of insurance, however. It provides compulsory insurance of agricultural production, insurance of passengers, insurance for accidents, property, cargo, and residential homes. In addition, it offers insurance on life, livestock, state enterprises, collateral, marriage, and children.

## 35 PUBLIC FINANCE

Revenues from domestic taxes and resources are limited. Expenditures are largely for grain, the supply of fuel and raw materials for industry, and to maintain the military. Despite proposals to liberalize the economy, the government continues to subsidize inefficient state enterprises. Only 11% of medium and large enterprises were privatized as of 1997, but the continuance

of privatization has gained momentum. In December 1999, the government announced that all small enterprises had been privatized, and that privatization of medium and large enterprises was a high priority.

The US Central Intelligence Agency (CIA) estimates that in 2000 Tajikistan's central government took in revenues of approximately \$146 million and had expenditures of \$196 million. Overall, the government registered a deficit of approximately \$50 million. External debt totaled \$1.23 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%	146
Tax revenue	91.2%	133
Non-tax revenue	8.8%	13
EXPENDITURES	100.0%	196
General public services	16.1%	32
Defense	9.4%	18
Public order and safety	8.8%	17
Education	3.7%	7
Health	1.6%	3
Social security	20.3%	40
Housing and community amenities	0.8%	2
Recreation, cultural, and religious affairs	3.6%	7
Economic affairs and services	14.4%	28
Other expenditures	16.7%	33
Interest payments	4.7%	9

### 36 TAXATION

Tajikistan's maximum personal income tax rate is 40%; corporate taxes range from 25–60% with a standard rate of 30%. Also levied are a 20% VAT; a 10–90% excise tax; and a social security combination of 37% by employers and 1% by employees.

### 37 CUSTOMS AND DUTIES

The government maintains a list of commodities and services subject to import licensing and quotas. Generally, imports are free of restrictions, including tariffs and quotas, with the exception of narcotics and firearms, which are forbidden. Goods traded within the former Soviet Union are mostly free from import duties. There is a 28% value-added tax and excise taxes are levied on some products.

### 38 FOREIGN INVESTMENT

After independence, Tajikistan's government emphasized the promotion of foreign investment particularly to develop labor-intensive manufacturing industries. With ongoing civil unrest, however, few investments have flowed into the country and most foreign aid except that of Russia has been stalled. Difficulties also exist with currency convertibility, a prohibition on land ownership, and repatriation of profits and capital. In 1996 the government amended the foreign investments law to offer a two year exemption from taxes on profits to enterprises with investments of \$100,000–500,000, and a four year exemption to enterprises with investments totaling \$2–5 million. The peace agreement of 1997 did not bring in an immediate rush of foreign investment capital. Only \$20 million was invested in that year.

### 39 ECONOMIC DEVELOPMENT

Soviet development policy in Tajikistan prioritized the development of the country's agricultural and other primary resources, while capital goods and manufactured consumer goods

were imported from elsewhere within the former USSR. Since the late 1970s, greater development of small food processing and consumer plants had been urged by local government officials in order to absorb more of the republic's rural labor force; however, these proposals found little favor with Soviet central planners. After independence, the government targeted the development of hydroelectric power production and a number of other industries (silk, fertilizer, fruit and vegetables, coal, nonferrous metals, and marble production), seen as particularly important for improving the country's export base.

In 1991, a "Program of Economic Stabilization and Transition to a Market Economy" was adopted by the newly independent government. In accordance with the program's principles, price liberalization, privatization measures, and fiscal reform were initiated in 1991 and 1992. The government's overthrow in the course of civil war in 1992, however, brought economic development to a virtual standstill and slowed the pace of economic reform. Renewed efforts during 1996–97, as the civil war was brought to a formal end, to move from a state-directed economy to a market-oriented one resulted in proposals to convert medium and large state enterprises to joint-stock companies and to create a securities market. Other proposals were aimed at turning land over to private farmers and at privatizing the cotton industry, which continues to dominate agricultural production. In 1997, the private sector accounted for less than 30% of GDP. That percent had risen to about 40% in 2001, about half in the formal economy and half in the informal, family-run economy. In 2000 18 cotton ginneries were auctioned off, bringing about \$9 million dollars. Local silk operations have also been privatized. The majority of enterprises have been bought by insiders rather than outside investors. Despite the return of real growth in 1997, the Russian financial crisis brought financial problems—inflation and external debt—to the top of the agenda ahead of market-oriented restructuring. As of early 2003, in fact, the IMF was advising against privatizing either the Tadaz aluminum plant or the country's hydroelectric facilities. In agriculture, the government remained undecided between allowing privatization and maintaining the large-scale, industrialized cotton operations that showed a 35% increase in productivity in 2001 over a drought-depressed 2000. Private farmers, however, show promise of leading the way to greater diversification in agriculture, expanding into higher value-added fruits and vegetables. However, a lack of credit facilities and distrust of the privatization process hampers movements towards diversification.

In pursuit of financial stability, on 24 June 1998 the government entered into a three-year arrangement under the IMF's PRGF (Poverty Reduction and Growth Facility) to run from 1998 to 2001. However, the IMF staff was unable to complete the third and fourth reviews of the third year of the program because of slow progress in improving the operations of the treasury and tax administrations, problems with the lack of transparency, and problems with the lack of independence of the Tajik Central Bank. However, in January 2002, a more successful structural reform program was implemented, including the creation of a new Ministry of State Revenues and Duties that has improved tax and customs collections. As the IMF program concluded in June 2002, the Tajikistan parliament adopted a three-year National Poverty Reduction Strategy (NPRS). The objectives of NPRS are to increase real income, achieve a fair distribution of growth benefits, and ensure a rise in living standards among the poorest groups. On 11 December 2002, the IMF Executive Board approved a second three-year program under the PRGF that will run in tandem with the Tajikistan's NPRS. IMF's approval of the government's debt and financial management is prerequisite to its ability to obtain the external finance it needs to develop its productive potential.

## 40 SOCIAL DEVELOPMENT

The government's social security systems have been threatened by war and economic turmoil. Refugees returning from Afghanistan after the war suffered from malnutrition and had high mortality rates in resettlement camps. Resettlement payments to refugee families had been promised by the government, but were not implemented in practice. Financial constraints have also led the government to fall behind in the payment of pensions. More than 80% of the population fall below the poverty line, while the monetary crisis devalues benefits.

There is no formal discrimination against women in employment, education, or housing. Women are increasingly working outside the home and are found in both the public and private sectors. Although under law women are supposed to receive the same pay for equal work as men, in practice this does not always occur. Women in rural areas are less likely to receive a higher education or work outside the home, and were likely to marry early. Violence against women, including spousal abuse, is a serious social problem and appears to be particularly prevalent in rural areas. The number of women in government has declined since the Soviet era.

Serious human rights abuses continue to be committed by the government and security forces. Ethnic tensions persist and prison conditions remain life-threatening.

## 41 HEALTH

As of 2000, Tajikistan retained the centralized health care system instituted during the Soviet era, with the state funding and providing for most health care services through the Ministry of Health. Although most hospitals have remained open, the number of beds decreased by about one-third during the 1990s. Training of medical personnel is a priority, as the country lost many skilled workers during its civil war. The shortage of skilled nurses is especially pressing. As of 1999, there were an estimated 2 physicians and 8.8 hospital beds per 1,000 people. As of 1999, total health care expenditure was estimated at 6.1% of GDP.

In 2000, there was an infant mortality of 21 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 33 and 8.5 per 1,000 people. The total fertility rate of 5.7 in 1980 had decreased to 3.1 in 2000. The maternal mortality rate was 65 maternal deaths per 100,000 live births in 1998. Life expectancy was 69 years in 2000. The immunization rates for a child under one were as follows in 1990–96: tuberculosis, 69%; diphtheria, pertussis, and tetanus, 82%; polio, 74%; and measles, 97%.

Leading causes of death per 100,000 people in 1990 were communicable diseases and maternal/perinatal causes, 182; noncommunicable diseases, 558; and injuries, 53. In 1992, there were approximately 20,000 war-related deaths. The likelihood of dying after age 65 of heart disease in 1990–93 was 364 per 1,000 for men and 378 per 1,000 for women. In 1991, there were 10,099 deaths due to cardiovascular disease in Tajikistan.

Diphtheria has spread widely throughout the former Soviet Union. In Tajikistan, reported diphtheria cases increased 180% from 680 cases in 1993 to 1,993 cases in 1994. Most cases were reported from the southern region of Kurgan Tyube, which borders Afghanistan. As of 1999, both the number of people living with HIV/AIDS and the number of deaths from AIDS were estimated at fewer than 100. HIV prevalence was lower than 0.01 per 100 adults.

## 42 HOUSING

The government's 1994 Conceptual Plan for the Provision of Housing called for the construction of 1,390,000 square meters of housing per year until the year 2000. Unfortunately, by 1995, only about 10% of the goal had been reached. Part of the housing shortage was brought on by the civil war, which accounted for

the destruction of over 35,000 homes. The government was able to rebuild about 21,000 homes by the end of 1995 through international assistance. In 1993, the government also initiated a fund for no-interest credit to help war victims in the reconstruction and repair of their own homes.

The most common building materials for new homes are prefabricated ferro-cement slabs. In rural areas, traditional materials of paksha, brick, mortar, and stone are used.

## 43 EDUCATION

The adult illiteracy rate was estimated at 0.8% for the year 2000 (males, 0.4%; females, 1.1%). Before the country came under Soviet control in 1920, there were no state-supported schools, only Islamic ones. Since then, many schools have been built. Education is free and compulsory between the ages of 7 and 17. Since 1989, there has been an increased emphasis on Tajik language, literature, and culture. In 1997 there were 638,674 primary students in 3,432 schools, with 27,172 teachers. Student-to-teacher ratio stood at 24 to 1. In the same year, secondary schools enrolled 688,150 students and had 112,532 teachers. The pupil-teacher ratio at the primary level was 22 to 1 in 1999. In the same year, 87% of primary-school-age children were enrolled in school. There are 10 schools of higher education including the Universities of Dushanbe and Khudzhand. In 1995, all higher-level institutions had a total of 108,203 pupils. In 1997, universities enrolled 76,613 students.

## 44 LIBRARIES AND MUSEUMS

The Fardousi Tajik National Library in Dushanbe holds nearly three million volumes. The Republican Scientific and Technical Library of Tajikistan has holdings that include two million volumes and 11 million patent records, and the Tajik State University holds 1.03 million volumes. The Republican Historical, Regional and Fine Arts Museum is in Dushanbe. There are regional museums in Chodsent, Sorog, Isfara, Kulyab, Nurek, Pendzikent, and Ura Tyube.

## 45 MEDIA

Telephone links to other former Soviet republics is by land line or microwave and to other countries through Moscow. Service is considered to be poorly developed and is not adequately maintained. Several towns are not within reach of the national network. As of 1997, there were 363,000 mainline telephones and 2,500 cellular phones in use.

Tajik Radio broadcasts in Russian, Tajik, Persian, and Uzbek; Tajik Television, with four channels, broadcasts in Tajik, Russian, and Uzbek. Repeater television stations relay programs from Russia, Iran, and Turkey. Satellite earth stations receive Orbita and INTELSAT broadcasts. As of 2001 there were 8 AM and 7 FM radio stations and 13 television stations. In 2000, there were 141 radios and 326 television sets per 1,000 population. The same year, there were about 2,000 Internet subscribers. In 2001, there were five Internet service providers.

In 2002 there were two major daily newspapers, *Turkmenkaya Iskra*, with a circulation of 62,946, and *Narodnaya Gazeta*. There are several publishing houses in Dushanbe, including educational, literary, and reference publishers.

Despite a 1991 law protecting already constitutionally provided free speech and press, the government is presently said to restrict these freedoms severely. Editors and journalists practice careful self-censorship, and supplies of newsprint, broadcasting facilities, and operating monies are controlled by the authorities.

## 46 ORGANIZATIONS

The Tajikistan Chamber of Commerce and the Tajikistan Industrial Association are important economic organizations. The most important mass movement in the country is the People's

Front. The members of the Writers Union and intellectuals in the country formed the “Rascokbez” (Rebirth) Popular Front, an opposition movement opposed to the government of Tajikistan.

Tajikistan’s Academy of Science coordinates and finances the scientific research of 19 affiliated natural sciences, social sciences, and humanity research institutions. The Ali Somon Foundation, established in 1994, works to promote economic development and modernization while preserving national culture.

Youth organizations include scouting groups; the Aurora Children and Teenagers’ Club, focusing on social and educational development programs; and the Tajikistan Youth Center, focusing on vocational training programs. The Women for Progress Association and the Association for Women and Society promote health, education, and equality for women. The Red Crescent Society is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Civil strife has dampened Tajikistan’s potential as a tourist site, which was already limited by the destruction of most ancient monuments and buildings by numerous earthquakes (500 in this century alone). Visas are required for entry into Tajikistan and are obtainable upon arrival or through Russian embassies abroad. There are daily flights from Moscow to the capital city of Dushanbe.

According to 1999 UN estimates, the cost of staying in Dushanbe was \$187 per day. Elsewhere in the country, estimated travel costs averaged \$75 per day.

#### 48 FAMOUS TAJIKISTANIS

Outstanding representatives of culture and literature in Tajikistan are the Tadjik poet Rudaki (d. 941) and the scientist and poet Avicenna (Hussayn ibn ‘Abd’ Addallah ibn Sine, 980?–1037), born near Bukhara. Avicenna wrote an encyclopedia of science. Pre-Soviet Tajik cultural figures include the author Abdalrauf Fitrat, who wrote *Last Judgement*, and Sadridalin Aymi, author of the novels *Slaves* and *Dokhunala*.

#### 49 DEPENDENCIES

Tajikistan has no territories or colonies.

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# THAILAND

Kingdom of Thailand

*Prates Thai*

**CAPITAL:** Bangkok (Krung Thep)

**FLAG:** The national flag, adopted in 1917, consists of five horizontal stripes. The outermost are red (symbolizing the Thai people); those adjacent are white (symbolizing Buddhism); the blue center stripe (representing the monarchy) is twice as high as each of the other four.

**ANTHEM:** There are three national anthems: *Pleng Sansen Phra Barami (Anthem Eulogizing His Majesty)*; *Pleng Chard Thai (Thai National Anthem)*; and *Pleng Maha Chati (Anthem of Great Victory)*, an instrumental composition.

**MONETARY UNIT:** The baht (฿) is divided into 100 satang. There are coins of 1, 5, 10, 25, and 50 stangs and 1, 5, and 10 baht, and notes of 50 satang and 1, 5, 10, 20, 50, 60, 100, and 500 baht. ฿1 = \$0.0235 (or \$1 = ฿42.58) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional units also are used.

**HOLIDAYS:** New Year's Day, 1 January; Chakkri Day, 6 April; Songkran Day, mid-April; Coronation Day, 5 May; Queen's Birthday, 12 August; Chulalongkorn Day, 23 October; King's Birthday, 5 December; Constitution Day, 10 December. Movable holidays include Makabuja Day, Plowing Festival, and Visakabuja Day.

**TIME:** 7 PM = noon GMT.

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

Comprising an area of 514,000 sq km (198,456 sq mi) in Southeast Asia, Thailand (formerly known as Siam) extends almost two-thirds down the Malay Peninsula, with a length of 1,648 km (1,024 mi) N-S and a width of 780 km (485 mi) E-W. Comparatively, the area occupied by Thailand is slightly more than twice the size of the state of Wyoming. It is bordered on the NE and E by Laos, on the SE by Cambodia and the Gulf of Thailand (formerly the Gulf of Siam), on the S by Malaysia, on the SW by the Andaman Sea, and on the W and NW by Myanmar, with a total boundary length of 8,082 km (5,022 mi), of which 3,219 km (2,000 mi) is coastline.

Thailand's capital city, Bangkok, is located on the Gulf of Thailand coast.

## <sup>2</sup>TOPOGRAPHY

Thailand may be divided into five major physical regions: the central valley, the continental highlands of the north and northwest, the northeast, the southeast coast, and the peninsula. The heartland of the nation is the central valley, fronting the Gulf of Thailand and enclosed on three sides by hills and mountains. This valley, the alluvial plain of the Chao Phraya River and of its many tributaries and distributaries, is 365 km (227 mi) from north to south and has an average width of 160–240 km (100–150 mi). On this plain, and most especially on its flat delta land bordering the Gulf, are found Thailand's main agricultural wealth and population centers.

The continental highlands lie north and west of the central valley. They include North Thailand, surrounded on three sides by Myanmar (Burma until June 1989) and Laos, which is a region of roughly parallel mountain ranges between which the Nan, Yom, Wang, Ping, and other rivers flow southward to join and create the Chao Phraya in the central valley. In the northernmost tip, drainage is northward to the Mekong River; on the western side, drainage runs westward to the Salween in

Myanmar. Most of the people of North Thailand live in small intermontane plains and basins that are generally widenings in the major river valleys. Doi Inthanon (2,576 m/8,451 ft) is the highest point in Thailand. Along the Myanmar border from North Thailand to the peninsula is a sparsely inhabited strip of rugged mountains, deep canyons, and restricted valleys. One of the few natural gaps through this wild mountain country is Three Pagodas Pass along the Thailand-Myanmar boundary, used by the Japanese during World War II for their "death railway" (now dismantled) between Thailand and Myanmar.

The northeast, much of it often called the Khorat, is a low, undulating platform roughly 120 to 210 m (400–700 ft) above sea level in the north and west, gradually declining to about 60 m (200 ft) in the southeast. Hill and mountain ranges and scarps separate the northeast from the central valley on the west and from Cambodia on the south; its northern and much of its eastern boundaries are marked by the Mekong River. Most of the northeast is drained by the Mun River and its major tributary, the Chi, which flow eastward into the Mekong. The northeast, in the rain shadow of the Indochina Cordillera, suffers from shortage of water and from generally thin and poor soils.

The small southeast coast region faces the Gulf of Thailand and is separated from the central valley and Cambodia by hills and mountains that rise in places to over 1,500 m (5,000 ft). This is a well-watered area, and the vegetation is, for the most part, lush and tropical. Most of the people live along the narrow coastal plain and the restricted river valleys that drain southward to the Gulf.

Peninsular Thailand extends almost 960 km (600 mi) from the central valley in the north to the boundary of Malaysia in the south and is anywhere from 16 to 217 km (10–135 mi) wide between the Gulf of Thailand on the east and the Andaman Sea (Indian Ocean) and Myanmar on the west. At the Isthmus of Kra, the Peninsula itself is only 24 km (15 mi) wide. A series of north-south ridges, roughly parallel, divide the Peninsula into distinct west and east coast sections. The west coastal plain is narrow—

nonexistent in many places—and the coast itself is much indented and often very swampy. The east coastal plain is much wider, up to 32 km (20 mi) in sections, and the coast is smooth, with long beach stretches and few bays. Well-watered (especially the west coast), hot, and densely forested, the Peninsula, unlike most of Thailand, lies within the humid tropical forest zone.

### 3 CLIMATE

Thailand has a tropical climate. For much of the country there are three distinct seasons: the hot season, from March through May; the rainy or wet monsoon, June to October; and the cool season, November through February. While continental Thailand receives most of its precipitation from June through October, rain occurs at all seasons in peninsular Thailand, the largest amount along the west coast from May to October, and along the east coast from October to January. For most of Thailand the temperature rarely falls below 13°C (55°F) or rises above 35°C (95°F), with most places averaging between 24°C and 30°C (75°F and 86°F). The annual rainfall ranges from 102 cm (40 in) in the northeast to over 380 cm (150 in) in the peninsula. Bangkok has an average annual temperature of 28°C (82°F); monthly mean temperatures range from a low of around 25°C (77°F) in December to a high of around 30°C (86°F) in May, and annual rainfall is about 150 cm (59 in).

### 4 FLORA AND FAUNA

Many distinctive forms of plant and animal life are found. Forestlands support hardwoods (notably teak), pine, bamboos, and betel and coconut palms; in the coastal lowlands, mangroves and rattan abound. Among the larger mammals are the bear, otter, and civet cat. Climbing animals include the gibbon and many species of monkeys. There are also sheep, goats, oxen, single-horned rhinoceroses, deer, tapirs, wild cattle, wild hogs, and snakes. There are over 600 breeding bird species. Crocodiles, lizards, and turtles are numerous. Fish abound in the rivers and coastal waters.

### 5 ENVIRONMENT

The Promotion and Enhancement of Environmental Quality Act of 1975 charges the National Environment Board with coordination of environmental protection programs in Thailand. The nation's water supply is at risk due to contamination by industry, farming activity, sewage, and salt water, especially in the Bangkok area. Thailand has 210 cu km of renewable water resources, with 91% used for farming activities and 4% for industrial purposes. Only 81% of the rural dwellers have pure drinking water.

Thailand's cities produce an average of 2.5 million tons of solid waste per year. Industry produces about 2 million tons of toxic pollutants annually. Watershed regions, undergoing rapid deforestation as a result of increased cultivation of upland areas, have been targeted for protection in the fourth and fifth national plans; overexploitation and pollution of freshwater and marine fisheries have yet to be remedied. By the 1980s, Thailand had lost about 25% of its original mangrove area. Land use in urban areas is regulated by the City Planning Act of 1975, the Control of Construction of Buildings Act of 1936, and the 1960 Act for Cleanliness and Orderliness of the Country. Parts of Bangkok were reportedly sinking at a rate of 10 cm (4 in) a year because of depletion of the water table.

Urban air and noise pollution was also severe, largely as a result of increasing automobile traffic. In 1992 Thailand was among 50 nations with the world's highest levels of industrial carbon dioxide emissions, which totaled 112.4 million metric tons, a per capita level of 2.02 metric tons. In 1996, the total rose to 205.3 million metric tons.

Wildlife is partially protected under the Wild Animals Preservation and Protection Act of 1960, but species have been

depleted through illegal hunting and trapping. In 2001, 34 of the nation's mammal species and 45 bird species were endangered. About 355 types of plants were also endangered. Endangered species in Thailand include the pileated gibbon, tiger, Asian elephant, Malayan tapir, Sumatran rhinoceros, Fea's muntjac, Thailand brow-antlered deer, kouprey, green turtle, hawksbill turtle, olive ridley, leatherback, river terrapin, estuarine crocodile, Siamese crocodile, false gavia, and the Javan rhinoceros. Schomburgk's deer and the redtail shark have become extinct.

### 6 POPULATION

The population of Thailand in 2003 was estimated by the United Nations at 62,833,000, which placed it as number 19 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 24% 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 1.01%, with the projected population for the year 2015 at 69,585,000. The population density in 2002 was 122 per sq km (316 per sq mi), but there are great regional variations in density.

It was estimated by the Population Reference Bureau that 22% of the population lived in urban areas in 2001. The capital city and only major urban area, Bangkok, had a population of 7,133,000 in that year. Outside of Bangkok, most major cities are provincial capitals, each generally centered in a changwat (province or county) with the same name as the city. According to the United Nations, the urban population growth rate for 2000–2005 was 2.7%.

### 7 MIGRATION

Immigration to Thailand, except for the Chinese, has traditionally been comparatively small. The decade of the 1920s was a period of large-scale Chinese immigration of 70,000 to 140,000 a year. Strict immigration regulations have all but stopped the legal flow of Chinese into the country, but during the Franco-Indochinese war some 45,000 Vietnamese refugees settled in Thailand. An immigration quota, introduced in 1947, now limits migration from any one country to 100 persons annually.

As of December 1992, the UN estimated that 63,600 refugees were living in Thailand; these represented part of the flood of over 4 million refugees who had left Cambodia, Laos, and Vietnam since the 1970s. Some 370,000 Cambodians on the Thai–Cambodian border were repatriated during 1992–93. The 36,000 Cambodian refugees who fled their country after the political and military events of 1997 were repatriated by 1999, and three border camps were subsequently closed. In 1986, the Thai government began forcibly repatriating many refugees from Laos. The last refugee camp for Vietnamese was closed in February 1997.

In June 1998, the Thai government formally requested increased UNHCR assistance for some 100,000 Karen and Karenni refugees living in 11 camps in Thailand along the Myanmar border. A comprehensive registration of the border population was completed through the joint efforts of the Thai government and UNHCR in 1999. UNHCR is also working with the government to establish uniform criteria for accepting new arrivals from Myanmar, as it is unlikely that repatriation will be possible in the near future.

The net migration rate in 2000 was -0.01 migrants per 1,000 population.

### 8 ETHNIC GROUPS

Thailand contains more than 30 ethnic groups varying in history, language, religion, appearance, and patterns of livelihood. However, the Thai, akin to the Lao of Laos, the Shan of Myanmar (Burma prior to June 1989), and the Thai groupings of

southern China, comprise about 75% of the total population of Thailand. The Thai may be divided into three major groups and three minor groups. Major groups are the Central Thai (Siamese) of the Central Valley; the Eastern Thai (Lao) of the Northeast (Khorat); the Northern Thai (Lao) of North Thailand; and the Southern Thain (Chao Pak Thai) of peninsular Thailand. Minor groups are the Phuthai of northeastern Khorat, the Shan of the far northwestern corner of northern Thailand, and the Lue in the northeastern section of northern Thailand. The several branches of Thai are united by a common language.

A major ethnic minority is the Chinese (about 14%), engaged in business and commerce throughout the country. Other varied ethnic groups account for the remaining 11% of the population. Malays (3–4%), in the southern peninsula near the border and, to a lesser extent, along the southeast coast; Khmers (1%), all along the Cambodian border from the Mekong to the Gulf of Thailand; and Vietnamese or Annamese, in the southern Khorat and on the southeast coast. Small numbers of residents from India, Europe, and the United States live mainly in urban areas. Principal tribal groups, mainly hill peoples, include the Kui and Kaleung, in the northeast; the Mons, living mainly on the peninsula along the Burmese border; and the Karens, living along the northern Burmese border. There are, in addition, some 20 other minority groups, including the Akha, Musso, Meo, Kamuk, Tin, Lawa, and So; most of these peoples, primitive and small in number, live by shifting cultivation in rugged, isolated mountain or dense forest terrain.

## 9 LANGUAGES

The Thai language, with northern, eastern, central (Bangkok or official Thai), and southern dialects, all distantly related to Chinese, prevails throughout the country. Thai, written in a distinctive alphabet, is thought to be part of the Sino-Tibetan language family, although links to Indian languages are also evident. The Thai dialects for the most part are mutually intelligible only with difficulty. Although the ethnic minorities (including the Malays) generally speak their own languages, Thai is widely understood. The Chinese population is largely bilingual. All official documents are in the central Thai language and script, although English, taught in many secondary schools and colleges, is also used in official and commercial circles.

## 10 RELIGIONS

Therevada Buddhism is the state religion of Thailand; only Buddhists are employed by the government, and the Thai monarch is legally required to be a Buddhist. According to 2000 government statistics, Buddhism was the religion of an about 94% of the population. However, other government agencies and religious groups estimate that the number of Buddhists is only about 85% to 90%. Although virtually all Thai are nominally Buddhists, the dominant form of religion in Thailand might be described as a spirit worship overlaid or mixed in varying degrees with Buddhist and Brahman beliefs imported from India.

An estimated 10% of the population, including the Malay ethnic minority, are Muslim. Among the other ethnic minorities, the Chinese practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, and ancestor worship. Most Vietnamese are Mahayana Buddhists and most Indians are Hindus (0.1% of the population). Christians have been active in Thailand since the 17th century and account for an estimated 1% to 2% of the population. There are small Baha'i and Jewish communities.

At least six tribal groups (500,000 to 600,000 people) are animists.

## 11 TRANSPORTATION

Thailand's transportation system is not fully developed, but it is growing rapidly. Owned and operated by the government, the

railways, consisting in 2002 of 4,071 km (2,530 mi) of track, radiate from Bangkok to Malaysia in the south, to the Cambodian border in the east, to Ubon Ratchathani and Nong Khai in the northeast, and to Chiang Mai in the north.

The highway system, significantly expanded during the 1960s and 1970s, serves many areas inaccessible to railway. In 2001 there were 64,600 km (40,142 mi) of roadway, including 62,985 km (39,139 mi) of paved road. Modern two-lane highways now connect Bangkok with the rest of the country. In 2000, registered motor vehicles totaled 4,667,700, including 1,529,000 passenger cars.

Waterways, both river and canal, are Thailand's most important means of inland transport; they carry much of the nation's bulk freight over a network of some 4,000 km (2,500 mi). The Chao Phraya River with its tributaries is the main traffic artery, and Bangkok is its focal point. The modern port of Bangkok at Klong Toey is the chief port for international shipping. Lying some 40 km (25 mi) inland from the sea, its harbor is navigable for vessels up to 10,000 tons, but constant dredging of the Chao Phraya is necessary. To relieve the congestion at Klong Toey, a new modern port was being developed at Sattahip, a former US naval base, and new seaports at Laem Chabang and Hap Ta Phut. Phuket Harbor in southern Thailand has been improved to accommodate 15,000-ton cargo ships. An extensive shipping service also exists along the Gulf of Thailand, and a small Thai merchant fleet plies between local and neighboring ports. In 2002, there were 297 oceangoing vessels of more than 1,000 gross tons in the Thai merchant fleet (up from only 80 in 1986), totaling 1,616,314 GRT.

Since the end of World War II, Bangkok has become an important center of international aviation. In 2001 there were 110 airports, of which 62 had paved runways. Principal airports include Bangkok International at Bangkok, Chiang Mai, Hat Yai at Haadyai, and Phuket International at Phuket. The government-owned Thai Airways International and Thai Airways Co. handle international and domestic air traffic, respectively. In 2001, scheduled airline traffic carried 17,392,100 passengers and 1,699 million ton-km (1,055 million ton-mi) of freight.

## 12 HISTORY

Archaeological excavations in the 1970s in Ban Chiang, northeastern Thailand, yielded traces of a Bronze Age people, dating as far back as 3600 BC predating Bronze cultures in China and the Middle East. The technical achievements of the Ban Chiang society, as surmised from archaeological evidence, indicate the existence of a settled agrarian people with advanced knowledge of bronze and iron metallurgy. Moreover, the skills demonstrating in their pottery, housing, and printing of silk textiles reflect at least 2,000 years of prior development, a finding that challenges previous concepts of incipient civilization and technology, and Southeast Asia's role in it.

The Thai descended from the ancient Pamir plateau peoples, who are racially related to the Chinese, that migrated from southern China to mainland Southeast Asia. While in southern China, the Thai created the powerful Nan-Chao kingdom, but continued pressure from Chinese and Tibetans and the final destruction by Kublai Khan in 1253 forced the Thai southward across the mountain passes into Southeast Asia. After entering the valley of the Chao Phraya River, they defeated and dispersed the Khmer settlers, ancestors of the Cambodians, and established the Kingdom of Thailand.

By the mid-14th century, the Thai expanded and centralized their kingdom at the expense of the Lao, Burmese, and Cambodians. Although Thailand developed trading contacts with the Dutch and Portuguese and with the French and British in the 16th and 17th centuries respectively, it remained a feudal state with a powerful court of nobles. During the reigns of Mongkut (1851–68) and his son Chulalongkorn (1868–1910), however,





LOCATION: 97° to 106°E; 6° to 21° N. TOTAL BOUNDARY LENGTH: 8,082 kilometers (5,022 miles).

Thailand emerged from feudalism and entered the modern world. A cabinet of foreign advisers was formed; commercial treaties of friendship were signed with the British (1855) and with the United States and France (1856); the power of nobles was curtailed, slavery abolished, and many court practices, such as prostration in the royal presence, were ended.

The Thai government continued as an absolute monarchy despite the progressive policies of Mongkut and Chulalongkorn. In 1932, however, a bloodless revolution of Westernized intellectuals led to a constitutional monarchy. Since then, Thailand experienced multiple constitutions, changes of government, and military coups. With the government in a state of flux, political parties tended to cluster around strong personalities rather than political ideologies. At the start of World War II, Thailand, after annexing Burmese and Malayan territories, signed an alliance with Japan and declared war on the United States and the United Kingdom. From 1932 through the 1940s, political life in Thailand centered around Pridi Banomyong and Marshal Phibul Songgram and thereafter around Marshal Sarit Thanarat, until his death in 1963. Sarit's handpicked heir, Marshal Thanom Kittikachorn, subsequently emerged as the country's political leader.

After the war, however, Thailand became an ally of the United States through their common membership in the Southeast Asia Treaty Organization (SEATO), and various other bilateral treaties and agreements. In January 1965, China announced the formation of the Thailand Patriotic Front, whose purpose was "to strive for the national independence" of Thailand. A limited insurgency subsequently developed in the North and Northeast, growing in intensity in the late 1960s and early 1970s as the Southeast Asian conflict raged on Thailand's northern and northeastern borders. As a SEATO member, Thailand took a direct role in the Vietnam war and supplied a small number of troops in support of the Republic of Vietnam (RVN). Furthermore, it granted US forces the use of air bases in Thailand for massive bombing sorties against the Democratic Republic of Vietnam and the Vietcong. US forces stationed in Thailand increased to as many as 25,000 by the end of 1972. With the termination of the direct US combat role in Vietnam in early 1973, the United States began a gradual withdrawal of military personnel from Thailand. In March 1976, the Thai government ordered the United States to close its remaining military installations in the country and to remove all but a few military aid personnel by July. The communist insurgency continued, with sporadic armed attacks on the government in remote northeastern border provinces.

Internally, Thailand weathered a series of political upheavals in the 1970s. In November 1971, Marshal Thanom, who had been reconfirmed as prime minister in the 1969 general elections, led a bloodless military coup that abrogated the constitution and imposed a state of martial law. In December 1972, an interim constitution that preserved military rule caused student and labor groups to agitate for greater representation in Thai politics. By early October 1973, demonstrations erupted into riots, and on 14 October, Marshal Thanom resigned and quit the country. King Bhumibol Adulyadej stepped into the vacuum and named a national legislative assembly to draft a new constitution. On 7 October 1974, the new constitution—the tenth such document to be promulgated in Thailand since 1932—went into effect. On 26 January 1975, Thailand held its first truly open parliamentary elections since 1957. Some 42 parties competed in the balloting, which produced a coalition government under Seni Pramroj. In March 1975, Seni's government resigned following a no-confidence vote and a right-wing coalition government led by Kukrit Pramroj (Seni's brother) subsequently assumed control, but it too resigned in January 1976. Elections held in April restored Seni Pramroj to power as head of a four-party coalition, but when civil disorder again erupted among students in Bangkok, he was overthrown by the military. The military-led government declared

martial law, banned strikes and political parties, and enacted yet another constitution. Promulgation of a subsequent constitution in December 1978 paved the way for elections in 1979, 1983, and 1986. On 9 September 1985, the military swiftly diffused an abortive military coup within several hours. It was the 16th coup or attempt at a coup since 1932. General Prem Tinsulanonda was appointed for a third term as prime minister following the 1986 elections.

Insurgents based in Laos and Cambodia contributed to the nation's political instability by launching guerrilla attacks on the country. Furthermore, an upsurge in the number of refugees from Laos and Cambodia contributed to a humanitarian crisis. In 1979, the government estimated the number of insurgents at 10,000. Following the Vietnamese victory in Cambodia in January 1979, thousands of insurgents took advantage of a government offer of amnesty and surrendered to Thai security forces while others were apprehended subsequently. By the beginning of 1986, fewer than 1,000 Communist insurgents remained active, according to government estimates.

During 1985 and 1986, the Progress Party gained power when cabinet ministers were replaced. A parliamentary defeat over proposed vehicle tax legislation resulted in the dissolution of the House of Representatives. In July 1986 a general election for an enlarged house took place. General Prem formed a coalition government and served as prime minister but opposition parties accused his government of corruption and mismanagement. Additional dissent arose over proposed copyright legislation aimed at controlling counterfeiting of Western products and intellectual property. In 1988 General Prem dissolved summarily the House of Representatives and announced a general election. In the July 1988 election, the Chart Thai gained the largest number of seats. Although its leader, General Chatichai Choonhavan, declared his unsuitability for prime minister, he was appointed nonetheless. General Chatichai took an active role in foreign affairs and made bold initiatives to improve relations with Laos, Vietnam, and Cambodia. His support declined as his preoccupation with foreign affairs was considered a detriment to his handling of domestic issues, especially regarding government response in the aftermath of a devastating typhoon in November 1989. In July 1990, accusations of corruption led to a motion of "no confidence" that failed to muster a majority in the House of Representatives. In December of that year, General Chatichai resigned as prime minister, only to be reappointed the next day, enabling him to form a new coalition government.

On 23 February 1991, a bloodless military coup led by the National Peace Keeping Council (NPKC) ousted Chatichai's government alleging massive and systemic corruption. The NPKC declared martial law, abrogated the constitution, and dissolved the cabinet. An interim constitution approved by the king was published in March 1991. A former diplomat and business executive, Anand Panyarachun, was appointed prime minister. Despite public protest, a draft constitution presented in November was approved on 7 December 1991.

In March 1992, General Suchinda became prime minister amid continued unrest. Two months later, Major General Chamlong called for the resignation of Suchinda and an amendment to the constitution at a rally attended by 100,000 demonstrators. Chamlong pledged that he would fast to death, but gave the government a one-week grace period to amend the constitution to prohibit the appointment of an unelected prime minister. When it appeared that the government might renege on this agreement, the peaceful demonstrations resumed. On 17 May 1992, about 150,000 demonstrators met at Sanam Luang parade grounds in central Bangkok. Leaders called for the demonstrators to walk toward Government House down Ratchadamnoen Avenue. With police considering the demonstrators' plan threatening and demonstrators looking for a confrontation, the venue for a violent clash existed. Demonstrators broke through roadblocks

established by the police and set fire to vehicles and a nearby police station. At 4 AM on 18 May the demonstrators were counterattacked with armored vehicles and machine-guns. Government forces arrested Chamlong and killed over 100 demonstrators and detained several thousands. Four days of violence ended with intervention by the king. On 24 May, Suchinda resigned after political leaders guaranteed amnesty to military officers that participated in quelling the demonstrations. On 10 June, the national assembly approved the constitutional amendments, including the prohibition of unelected politicians from forming a cabinet. A general election followed on 13 September 1992, and Chuan Leekpai, leader of the winning Democratic Party, became prime minister.

Chuan's policies emphasized four goals: to eradicate corrupt practices, to reduce the powers of the appointed Senate, to decentralize government from Bangkok to the provinces, and to enhance rural development. Beginning in 1993 and into 1994, Chuan's government faced two "no confidence" motions in parliament, but the government emerged stronger after they failed. In 1994, Chamlong and Palang Dharma became more assertive in demands for constitutional reform, decentralization of state power, and progress in solving Bangkok's traffic problems, which are some of the worst in the world—some commutes reportedly taking up to six hours.

Ultimately corruption charges brought Chuan's governing coalition down. In late 1994, the New Aspirations Party (NAP), led by Chavalit Yongchaiyudh, left the ruling coalition over a planned electoral reform. In May 1995, prior to a vote of no confidence, Chuan dissolved parliament and called for new elections. Having served two years of a four-year term as prime minister, Chuan became Thailand's longest serving civilian leader in the modern era.

During the campaigning leading to the July 1995 elections, politicians spent 17 billion baht buying votes, a seemingly intractable problem. However, the otherwise fair balloting was won by the Chart Thai party, which took 92 (of 391) seats. The former PM, Chuan's Democrats secured 86; the NAP took 57; and Palang Dharma lost heavily, going from 47 to 23 seats. Chart Thai selected as its PM Banharn Silpa-archa. In appointing his cabinet, however, Banharn was immediately perceived as favoring the old corrupted elite, especially when he gave important ministerial posts to Montri Pongpanich and Chalerm Yubamroong, both of whom were well known for their ill-gotten wealth. Even the king, who is revered by Thai society, expressed dissatisfaction with the caliber of the new ministers.

Not surprisingly, Banharn's government collapsed before the end of 1996 and elections took place on 17 November 1996. Chart Thai went from 96 seats to 39 as the NAP, led by coalition parties, and Minister of Defense Chavalit Yongchaiyudh, emerged victorious. They swept into power going from 57 seats to 125. Placing second in the balloting was the Democratic Party. Chavalit, one of Thailand's more respected politicians, vowed to appoint a cabinet of technocrats (he called them the "dream team") rather than cronies, and to rescue the Thai economy which had been faltering. Despite his pledge, however, 1997 was a disastrous year for the Thai economy. In mid-May, the stock market collapsed and speculative currency trading hammered the baht. The government intervened, but conditions deteriorated so badly that by July the government decided to float the baht, which had been pegged to the US dollar, causing a precipitous drop. In one day, the currency fell more than 17% against the dollar. The floating of the baht caused international headlines as neighboring Asian countries frantically scrambled to protect their own currencies. By September 1997, the crisis had spread to Singapore, the Philippines, Malaysia, and Indonesia.

Failing to adjust to the crisis, the Minister of Finance Thanong resigned in October 1997 while students demanded the resignation of Chavalit. Despite a reshuffling of the cabinet in an

attempt to placate Chart Pattana, Prime Minister Chavalit resigned on November 6. In November, Chuan Leepkai formed a coalition government that included his Democratic Party, Chart Thai, the SAP, Ekkaparb, the Seirtham Party, Palang Dharma, the Thai Party, and a majority of the Prachakorn Thai Party. Despite the perceived integrity of Chuan, the Thai baht continued to experience devaluation. The fragile government survived a no confidence vote in March 1998.

By May 1998, the Thai economy stabilized and began to recover slowly despite the swirling of allegations of corruption that led to the resignation of two ministers. The government accepted a significant International Monetary Fund bailout package and promised to deregulate the economy and adopt transparency. In March 1999, a major privatization bill passed the National Assembly, which allowed government enterprises to become corporate entities without legislative action. On 5 October 1998, Chuan reorganized the government and invited Chart Pattana into the government, extending the coalition's majority in the House of Representatives to 257. In April 1999, the leader of the NAP, Chavalit temporarily resigned as leader of the party in order to prepare for upcoming general elections.

In March 2000, the first ever Senate elections took place in accord with the 1997 constitution. The nonpartisan elections fielded 1,521 candidates who, by law, refrained from campaigning.

In general elections held in January 2001, media tycoon Thaksin Shinawatra's Thais Love Thais Party won a major victory, making him prime minister. The new party took 248 of 500 seats in the House of Representatives, and Thaksin formed a coalition government with the Chart Thai (Thai Nation) Party and New Aspiration Party. The elections were marked by voting irregularities. Thaksin promised to help small businessmen and farmers in Thailand, pledging to postpone farmers' debts for three years and allocate credit of approximately US\$23,000 each to more than 70,000 villages.

In March, a plane Thaksin was due to board in Bangkok exploded, in what was regarded as an attempted assassination plot. There were speculations that the bombing had to do with Thaksin's campaign promise to crack down on drug traffickers, particularly drug lords in Myanmar moving their product through Thailand. There were 149 passengers booked to be on the plane. One person was killed and seven were injured.

Thailand officials reported that 2001 was the worst year on record for the use of methamphetamine, called *ya ba* ("crazy medicine") in Thailand. The rise in users was deemed by the military to be a threat to national security. More inexpensive to produce, smuggle, and market than heroin, methamphetamine is produced largely in Myanmar.

During 2001 and 2002, relations between Myanmar and Thailand improved. The two countries held talks in June 2001, attempting to ameliorate disagreements over the drug trade and border tensions. By September, Myanmar pledged to eliminate drug trade in the Golden Triangle by 2005. Thailand committed funds to finance a crop substitution program, and the two countries regarded themselves as good neighbors. However, in May 2002, Myanmar closed its border with Thailand after the Thai army fired shells into Myanmar's territory during a battle between Myanmar's army and ethnic Shan rebels. The border was reopened in October.

On 29 January 2003 riots broke out in the Cambodian capital of Phnom Penh over comments attributed to a Thai actress that Cambodia's Angkor Wat temple complex was stolen from Thailand. Thailand initially suspended all economic cooperation and business dealings with Cambodia, and closed the border. Cambodian Prime Minister Hun Sen promised to pay US\$46.7 million in compensation for the damage done to Thai businesses. Thailand was due to partially reopen its border with Cambodia on 8 February.

## 13 GOVERNMENT

Thailand has been a constitutional monarchy since 1932. The present king, Bhumibol Adulyadej, ascended to the monarchy in 1946 and became Rama IX on 5 May 1950. Until 1958, Thailand was governed under a constitution originally promulgated in December 1932. In October 1958, however, the constitution was suspended, and three months later the king proclaimed an interim basic law providing for a constituent assembly to draft a new constitution. Nine years in the making, a new constitution was promulgated in June 1968, and the first elections under it were held in 1969. In November 1971, Marshal Thanom Kittikachorn overturned the document despite being chosen by its rules.

A period of martial law under a national executive council ensued, with the military continuing in power through an interim constitution. A new constitution, promulgated in 1974, was suspended and replaced by martial law in 1976 when civil disorder ensued. The 1976 constitution was abrogated after an October 1977 coup and under an interim constitution, the king empowered a legislative assembly to draft a new governing document. This constitution, approved by the legislature on 18 December 1978, lifted the ban on political parties and eased some of the martial law provisions imposed in 1976.

On 23 February 1991, the National Peacekeeping Council (NPKC), led by the supreme commander of the Royal Thai Armed Forces, General Sundhara Kongsompong, took over the administration of the country. On 9 December 1991, the NPKC promulgated a new constitution. It provided for a national assembly comprised of elected representatives and an appointed senate, and a cabinet headed by an appointed prime minister. This charter was sympathetic to the needs of the military and gave the junta power over the senate. Protests that resulted in the deaths of pro-democracy demonstrators between 17–20 May 1992 quickly led to a constitutional amendment to provide for an elected prime minister and to curb some of the appointed senate's power. This constitutional amendment was approved by the national assembly on 10 June 1992 and required the prime minister to be a member of the house of representatives. In addition, the revised constitution significantly cut back the powers of the senate by ruling that the speaker of the lower house will be president of the parliament (previously it was the speaker of the senate). The senate is also barred from initiating, or taking part in, "no-confidence" motions. The first elections under these reforms were held on 13 September 1992.

Efforts to amend the constitution again came before parliament in April 1994, and the seven government-sponsored amendments were defeated. These amendments sought to reform Thailand's political structure by institutionalizing political parties and increase the role of the legislature. Prolonged debate and political indecision prevented the passage of these amendments until 27 September 1997, when the new constitution passed with the king's endorsement. According to this constitution, the house of representatives would consist of 500 members, with 400 selected by respective constituencies and 100 seats allocated by proportional representation of all parties exceeding the 5% threshold of popular votes. In an attempt to stabilize the political situation and institutionalize parties, the new constitution requires representatives to resign their seat if they renounce or switch their party membership. The senate, to consist of 200 nonpartisan members, requires all members to hold at least a baccalaureate. Members of both the house and senate serve four-year terms.

## 14 POLITICAL PARTIES

Constitutional government in Thailand has been hindered by traditional public apathy, and political parties generally have been formed by military personalities rather than around political issues and programs. Military leader Phibul Songgram, who

became prime minister in 1938, did not favor political parties. Phibul's immediate postwar successor, the pro-Japanese Pridi Banomyong, encouraged the growth of parties, but these were generally ineffective, primarily because of Thai inexperience with such institutions.

Upon Phibul and other military leaders' return to power in 1947, parties were banned. In a move designed to undercut a growing threat from other soldiers, Phibul reinstated political parties in 1955 in preparation of the elections for 1957. A new coup, led by Marshal Sarit Thanarat, deposed Phibul in 1957 and again banned political parties. Following the promulgation of a new constitution in June 1968, parties were again legalized and hotly contested the 1969 parliamentary elections. Prime Minister Thanom Kittikachorn's United Thai People's Party won a plurality (76) of the 219 seats in the House of Representatives, giving it a majority in partnership with 72 "independents" supported by Deputy Premier (and army chief) Praphas Charusathien. The Democrat Party, led by civilian politician Seni Pramoj, won 56 seats, becoming the chief opposition party. Following Marshal Thanom's 1971 coup, political activity again subsided in favor of the military. The collapse of military rule in October 1973 led to a resurgence of civilian political groups. In the parliamentary elections of 26 January 1975, 2,193 candidates from 42 political parties contested 269 seats in the House of Representatives. Voter apathy remained a problem, however, as only 47% of the electorate (33% in Bangkok) took part. The conservative Bangkok-based Democrat Party emerged with a meager plurality of 72 seats, thereby failing to secure a majority coalition. On 13 March, Kukrit Pramoj, leader of the Social Action Party (SAP), which held 18 seats, was elected prime minister in a controversial vote; he formed a ruling right-wing coalition with the Social Justice Party (45 seats), the Chart Thai (28 seats), and four smaller groups. The coalition collapsed in January 1975, and in new elections held on 4 April, Seni Pramoj gained the premiership.

In the bloodless military coup of 23 February 1991 by the National Peacekeeping Council (NPKC), General Chatichai's government was turned out. The NPKC promulgated a provisional constitution, and after a brief period paved the way for a civilian interim government headed by Anand Panyarachun. A general election was held 22 March 1992, with 15 parties contesting 360 seats with 2,185 candidates. Persistent vote buying marred an election in which 59.2% of the electorate voted. Results were: Samakkhi Tham (79), Chart Thai (74), New Aspiration Party (72), DP (44), and Palang Dharma (41). A coalition government controlling 195 seats in the House of Representatives was comprised of Samakkhi Tham, Chart Thai, Pratchakorn Thai, the SAP and Rassadorn parties. Narong Wongman was proposed as prime minister until the United States made allegations of Narong's involvement in illegal drug trafficking. In April 1992, General Suchinda was named prime minister. His appointment as an unelected prime minister met with immediate protest. Agreement was reached to amend the constitution to prevent an unelected prime minister, but an apparent change of mind by the government resulted in violent rioting. Suchinda resigned and constitutional amendments were approved by parliament on 10 June. The National Democratic Front, four parties that had opposed the military government, the DP, the New Aspiration Party, Palang Dharma, and Ekkaparb, formed an alliance to contest the elections called for in September 1992. In the wake of the 1976 coup, massive arrests were made of liberal and leftist political elements; political parties were banned, and martial law instituted. Political activity was restored and martial rule partially relaxed under the 1978 constitution. Subsequent elections, held on 22 April 1979, gave no party a clear majority. The SAP won a plurality of 82 seats, and the Thai Nation Party finished second with 38. Gen. Prem Tinsulanonda, who became prime minister in March 1980, formed a new

coalition government after the April 1983 elections, in which the SAP emerged with a plurality of 92 seats. Several days after the elections, the Thai Nation Party, which had won 73 seats, subsumed the Siam Democratic Party, which controlled 18. In subsequent elections on 27 July 1986, the Bangkok-based Democrat Party improved its position greatly, winning 100 seats. The Thai Nation Party won 63, and the SAP, 51. These three parties, along with the small Rassadorn—or People's—Party which won 18 seats, formed a new coalition, but with Gen. Prem again as prime minister. The election campaign and balloting were marred by scattered incidents of violence.

In the 13 September 1992 general election 12 parties contested 360 seats in the House of Representatives. Voter turnout was 62.1%. Election results were: the DP (79), Chart Thai (77), Chart Pattana (60), New Aspiration Party (51), and SAP (22). The DP formed a coalition party with Palang Dharma (47 seats) and Ekkaparb (Solidarity) for control of 185 of the 360 seats. The SAP was invited to join the coalition. The leader of the DP, Chuan Leekpai, was named prime minister. Chuan served for two years—the longest continuous civilian rule in modern times—before scandal brought his government down in May 1995. Elections were held in July 1995 which were won by Chart Thai, taking 92 of the expanded body's 391 seats. Chuan's Democratic Party was next with 86 seats; the NAP took 57 and Phalang Dharma slipped from 47 to 23 seats. Banharn Silpa-archa was appointed prime minister, and was almost immediately assailed by the press—and even the king—for assembling a government of largely discredited cronies.

Banharn's coalition lasted barely 14 months and new elections were held in November 1996, the results of which were as follows: NAP, 125 seats; Democratic Party, 123; Chart Pattana, 52; Chart Thai, 39; SAP, 20; Prachakorn Thai Party, 18; Solidarity Party, 8; Seritham Party, 4; Muan Chan Party, 2; Phalang Dharma, 1; Thai Party, 1. Chavalit Yongchaiyudh became prime minister in January 1997. He resigned in November, and Chuan Leekpai once again formed a coalition government including his Democratic Party, Chart Thai, the SAP, Ekkaparb, the Sirtham Party, Palang Dharma, the Thai Party, and a majority of the Prachakorn Thai Party. Constitutional changes, promulgated on 11 October 1997 increased party discipline and loyalty. It requires representatives to resign their seat if they switch or renounce their party affiliations.

General elections were held on 6 January 2001, which were won by the new Thai Rak Thai ("Thais Love Thais") Party, led by Thaksin Shinawatra, who became prime minister. Thaksin, a multi-millionaire telecommunications tycoon, took almost twice as many seats as his rivals, but fell short of an outright majority. Thai Rak Thai took 248 of 500 seats in the House of Representatives, and the Democratic Party of outgoing Prime Minister Chuan Leekpai won 128 seats. Thaksin's coalition included the New Aspiration Party and the Chart Thai Party. The elections were marred by allegations of fraud and vote-buying. The results of 62 constituencies were thrown out because of voting irregularities, more than half of the disqualifications earned by candidates from Thai Rak Thai. Those constituencies held re-elections on 29 January. Thaksin was indicted by the National Counter Corruption Commission (NCCC) in December 2000 for failing to report some of his wealth. In August 2001, the Thai constitutional court voted 8–7 to acquit Thaksin of assets concealment.

## <sup>15</sup>LOCAL GOVERNMENT

Thailand is divided into 76 administrative provinces (*changwats*), each under the control of an appointed governor responsible to the Ministry of the Interior. Bangkok is sub-divided into 37 districts or "*khets*." As of 2001, in addition to the provinces, there were 795 districts, 81 minor districts, 7,255 subdistricts or *tambon* and 70,865 villages. Numerous changes went into effect

with the promulgation of the new constitution in 1997. Effectively immediately, all local administrators must now be elected directly by popular suffrage or by the approval of a local assembly. Furthermore, local government officials are prohibited from holding a permanent national position or receiving additional compensation from government related positions.

## 16 JUDICIAL SYSTEM

The 1997 constitution provided for an independent judiciary and the guarantee of basic civil liberties. Courts of the first instance, juvenile courts, and magistrates' courts exist in Bangkok and in each of the provincial capitals. There are nine regional courts of appeal, and a Court of Appeal, sitting in Bangkok, hears cases for the entire kingdom. The Supreme Court, also in Bangkok, consists of at least three judges and decides only on points of law. Judges in Thailand are appointed (and removed) by the king. All appointments are subject to initial approval by a judicial commission. There is no trial by jury in Thailand.

The constitution also provided for establishment of a constitutional tribunal to adjudicate disputes among the courts. Military courts deal primarily with military justice, but have broader jurisdiction when martial law is in force. There is no appeal of decisions by military courts. Defendants in ordinary criminal courts are afforded a wide range of procedural due process protections. Although there is no right to counsel during the investigative phase of cases, detainees are afforded access to counsel during trial.

Islamic courts hear civil cases concerning members of the Muslim minority. The legal system is based on civil law with common law influence.

## 17 ARMED FORCES

The armed forces in Thailand consist of 306,000 active duty personnel and 200,000 reservists. The army numbered 190,000 personnel in 2002 and was equipped with 333 main battle tanks and 460 light tanks. The air force consisted of 48,000 personnel with 194 combat aircraft, plus transport, training, and helicopter rescue units. The navy had 68,000 personnel which included 18,000 marines, 7,000 coastal defense personnel, and 1,700 naval aviators. Naval equipment included one aircraft carrier, 12 frigates, and 88 patrol and coastal combatants. In addition, a volunteer defense corps of 50,000 was available for the maintenance of national security, along with other police forces for a total of approximately 113,000 paramilitary troops. In 2000 Thailand spent \$1.78 billion on defense, or 1.4% of GDP.

## 18 INTERNATIONAL COOPERATION

Thailand, a member of the UN since 16 December 1946, is the headquarters for ESCAP and belongs to all the nonregional specialized agencies. Bangkok has served as regional headquarters for several other UN agencies, and for the former Southeast Asia Treaty Organization (SEATO). Thailand is identified more closely than most Asian countries with the Western nations largely because of its alliance with the US. The country is a member of the Asian Development Bank, Asian and Pacific Council, ASEAN, the Association of Natural Rubber Producing Countries, G-77, and the International Tin Council. Thailand is a member of the WTO, and a signatory of the Law of the Sea.

Thailand is a participant in the Colombo Plan, and it receives economic aid from UN agencies for agricultural, industrial, and health projects. US assistance has been a vital factor in Thailand's economic development since World War II. Although never engaged in direct combat on Thai soil, the United States has been Thailand's paramount military ally in recent decades, supplying funds, equipment, advisers, and large-scale training programs for personnel. On order of the Seni government, the US military presence in Thailand was almost completely withdrawn by mid-

1976, although some US assistance, including military aid, continued.

Prior to the military and political upheavals of the 1970s, Kampuchea (known as Cambodia until 1976 and again from 1989), Laos, Thailand, and the Republic of Vietnam had been cooperating on the development of the lower Mekong Basin in terms of hydroelectric power, irrigation, navigation improvement, and flood control. The Greater Mekong Subregion (GMS) has a population of approximately 245 million and covers an area approximately 2.3 million sq km (0.88 million sq mi). Progress on GMS projects moved forward in 1992 when Thailand, Cambodia, Myanmar, Laos, Vietnam, and the Yunnan Province of China engaged in closer cooperation. The goal was to facilitate economic growth and improve the standard of living in the Mekong region by greatly expanding trade and investment. Transportation, including cross-border roads, and power generation and distribution are all priorities. In addition to and in support of GMS projects, in 1995 Thailand, Cambodia, Laos and Vietnam established the Mekong River Commission (MRC) to coordinate development in the region.

## 19 ECONOMY

Thailand's economy more than tripled in the decade after 1986, achieving approximately 9% real growth annually from 1989 to 1996, before it became an epicenter of the Asian financial crisis of 1997, a regional crisis of investor confidence flowing from Hong Kong's return to Chinese rule. Thailand's real GDP declined 1.4% in 1997, and then plunged 10.5% in 1998. In early 1997, the Bank of Thailand spent about \$30 billion in foreign exchange reserves trying to defend the baht's value in terms of a basket of currencies against speculation against it, and then on 2 July 1997 abandoned the peg, and allowed the currency to float. The subsequent rapid fall in the baht's value—from 25 bahts to 1 US dollar down to 32 bahts to 1 US dollar before the end of the month, and to a low of about 53 bahts to 1 US dollar by January 1998—was the proximate cause of the financial crisis that left most business in Thailand technically bankrupt. A \$17.2 billion international bailout package was quickly arranged through the IMF, which seeded the loans with a stand-by line of credit running from 20 August 1997 to 19 June 2000 of SDR2.9 billion (about \$2 billion) subject to a program of economic reform conditionals. Moderate growth returned in 1999 and 2000 (4.4% and 4.6%, respectively), but then dropped to an anemic 1.8% in 2001 in the face of the global economic slowdown and the halving of foreign direct investment worldwide following the 11 September 2001 terrorist attacks on the United States. Nevertheless, according to IMF staff estimates, by 2001 the economy had recovered to its pre-crisis level, and was projected to grow 3.5% in 2002.

The main legacies of the crisis are a low industrial capacity utilization rate (at 53.3% in 2001 down from 56% in 2000), a massive load of non-performing loans (NPLs) on the financial system, and a high, though declining, external debt and debt service ratios. External debt as a percent of GNP was projected at 47.8% in 2002 down from the high of 93.9% in 1998, and debt service was projected at 17.5% of export earnings in 2002, up from the pre-crisis level of 6.4%, but down from 20.8% in 2001.

Structurally the economy has continued to mature. From 1986 to 1996, agriculture employed about 57% of the labor force while agriculture's contribution to the GDP dropped from 16.7% to about 10%. In 2001, agriculture employed a reported 38% of the labor force while accounting for 11% of the GDP. Thailand has evolved a mobile labor market in which many workers migrate between agricultural jobs in the country and self-employment and/or light industry jobs in the cities and industrialized zones. Official unemployment was at a low of 1.5% in the last boom years, 1996 and 1997, and then peaked at 4.4% in 1998. Post-crisis, unemployment rates have slowly

declined to 4.2% in 1999, 3.6% in 2000, 3.3% in 2001 and a projected 3.2% in 2002. The government's decision not to forcibly repatriate a large number of foreign workers, implementing instead its first "amnesty" program in September 2001 (which gave work permits to about 360,000 foreign migrants employed mostly in semi-skilled jobs in the fisheries and construction), has helped slow the decline of the unemployment rate. Official figures, moreover, do not adequately reflect the seasonal unemployment of about 2 million agricultural workers during one third of the year. Overall, the shift of workers out of agriculture continues particularly in the northeast where agriculture is less productive, providing a steady inflow of workers to Bangkok and other industrialized areas who contribute to Thailand's expanding and diversified manufacturing and construction sectors. Manufacturing grew by 17% in 1995 and accounted for 33% of GDP, up from 22% in 1992. In 2002, manufacturing's share of GDP was up to 36.5%. In all, industrial production in 2002 was at 22% above the level attained in 1995 according to the country's industrial production index.

The Thai manufacturing sector is notable for its wide diversity, with rapid growth the production of computers and electronics, automobiles, garments, footwear and synthetic fibers, furniture and wood products. In its efforts to recover economic momentum, Thailand faces strong competition from China, Indonesia, Vietnam, Pakistan and Bangladesh, where cheap labor cheap labor diminishes the competitiveness of Thailand's labor-intensive industries. According to Bank of Thailand data, total trade fell in 2001 for \$130.3 billion to \$124 billion, with exports showing a 6.9% drop and imports down 2.5%, reducing the annual trade surplus from \$5.5 billion to \$2.5 billion. Besides intense export competition in the context of a global economic slowdown of 2001, many analysts have attributed the sluggishness of Thailand's recovery to the reluctance of many companies, a high percentage of which are still family-owned conglomerates, to cut excess capacity, divest non-core operations, or declare bankruptcy. Financial institutions have shown a similar reluctance to rid themselves of NPLs. NPLs reached a height of 48% of total banking assets in May 1999. Officially, NPLs were at 10.75% of financial system assets in 2002 but the true figure is considered closer to 30% when the whole range of asset management corporations is taken into account.

Several years of post-crisis deficit spending by the government in addition to the liabilities incurred in the international bailout program also weigh down the economy. Inflation, however, appears to be under control. In the last years of the 1986–1996 boom, the annual inflation rate averaged between 5 and 6% as measured by the consumer price index (CPI). The rate increased to 8% in 1998, but in 1999 had fallen to a negligible 0.3%. In 2000 and 2001, inflation was less than 2% (1.6% and 1.7%), and was projected to be only 1% for 2002. Initial estimates of the economic effects of the US-Iraq war begun 20 March 2003 are that it would be minimal, costing about \$2 billion in foreign reserves due to higher oil costs and reduced trade.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Thailand's gross domestic product (GDP) was estimated at \$410 billion. The per capita GDP was estimated at \$6,600. The annual growth rate of GDP was estimated at 1.4%. The average inflation rate in 2001 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 11% of GDP, industry 40%, and services 49%. Foreign aid receipts amounted to about \$5 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,524. 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 23% of household consumption was spent on food, 5% on fuel, 3% on health care, and 13% on education. The richest 10% of the population accounted for approximately 32.4% of household consumption and the poorest 10% approximately 2.8%. It was estimated that in 1998 about 19% of the population had incomes below the poverty line.

## 21 LABOR

The labor force in 2001 totaled some 33.4 million (compared with 21.7 million in 1981 and 15.1 million in 1967). In 1996, the last year reported, about 50% were engaged in agriculture and related occupations, 20% in industry, and 30% in services. In 2001, unemployment amounted to 3.9% of the economically active population.

Because of persisting government opposition to unions, organized labor was not a major factor in Thai life prior to the 1970s. Labor legislation in 1969 delineated certain basic workers' rights, and unions were granted greater freedom to organize under the Labor Relations Act of 1975. The Thai Trade Union Congress is the largest labor federation. As of 2002, only 2% of the labor force (11% of industrial workers) was unionized. Minimum daily wage rates in 2002 ranged from \$3.01 to \$3.71 depending on the cost of living in different provinces. Legislation regulating hours and conditions of labor, workers' compensation, and welfare also exists, however, these laws are weakly enforced.

While forced labor is prohibited by the Thai constitution, there are reports that workers are physically prevented from leaving some sweatshops, especially ones which employ illegal immigrants from Laos, Cambodia, and Burma. These same sweatshops have also been accused of using physical coercion to meet production goals.

The minimum working age was raised to 15 in 1998, but this law has not traditionally been effectively enforced. As of 2002, it was estimated that there were one million children working on family farms. Another 240,000 to 410,000 children were working in urban areas.

## 22 AGRICULTURE

With some 20.4 million hectares (50.4 million acres) of farm land, of which about 10 million hectares (24.7 million acres) are under rice cultivation, Thailand continues to rely heavily on agriculture, although the country has suffered from declining export prices in recent years. Rice is the major crop grown; Thailand is the world's biggest rice exporter. Total rice production amounted to 17.5 million tons in 2001/02. The government has embarked on large-scale irrigation projects and introduced higher-yielding varieties of rice in an effort to increase production. In 2001, agricultural products accounted for 11.7% of exports and Thailand's agricultural trade surplus was nearly \$4.5 billion (10th in the world).

Rubber, also a major export, is grown on the peninsula and, to a lesser extent, on the southeast coast. Total production in 1999 was 2,198,000 tons, the highest in the world and accounting for 34% of all production that year. Demand for natural rubber is growing along with the international concern about AIDS. Sugarcane production reached 52.8 million tons, while output of cassava (tapioca), traditionally important in Thailand, totaled 16.5 million tons. Thailand provides about 95% of the world's cassava exports. Much of the harvest is processed into chips and pellets and exported to the EU for fodder. Higher EU tariffs, however, have caused the Thai government to promote dairy, fruit, rubber, and cashew farming instead. Corn production,

which has increased significantly in recent decades, reached 4.6 million tons in 1999. One third of annual corn production is consumed annually as fodder, with the remainder being exported to Europe and Japan. Kenaf, tobacco, cotton, and kapok are cultivated mainly for domestic use, but quantities of jute, cocoa, peanuts, soybeans, and medical plants are exported. Canned pineapple and fresh flowers, especially orchids, are important exports. The Thai government's official policy of encouraging mountain villagers to grow coffee, apples, strawberries, kidney beans, and other temperate crops instead of the lucrative opium poppy and marijuana has had some success; another aim of the project is to discourage deforestation through slash-and-burn cultivation. In 1987, King Bhumibol Adulyadej received a Magsaysay Award for International Understanding for his 20 years of effort in this area.

In the mid-1970s, farmers began to organize to express their discontent over the disparity between farm and nonfarm incomes. To improve farm conditions, the government legitimized squatters' rights to nearly 500,000 hectares (1,236,000 acres) of land classified as forest reserve and established credit and crop insurance programs for farmers. The government Marketing Organization for Farmers, founded in 1975, allows farmers to buy fertilizers, machinery, and equipment at the lowest possible prices and assists in crop marketing. It is also government policy to channel revenues from agricultural export taxes to a welfare fund called the Farmers Assistance Fund.

### 23 ANIMAL HUSBANDRY

Cattle, used for plowing and harrowing, are important to rice farming, and most rural households have some cattle as well as hogs, chickens, and ducks. In 2001, Thailand had 4.6 million head of cattle, 1.5 million head of buffalo, 6.7 million hogs, and 43,000 sheep. Other livestock included 114 million chickens and 28 million ducks. Elephants, important as draft animals in rural areas, are used to haul teak. Crocodiles, raised for their skins, are a specialty livestock product. Leading exports of animals and animal products in 2000 included (in millions of dollars): meat and meat products, \$986.2; dairy products and eggs, \$95.8; live animals, \$4.7; and hides and skins, \$1.9.

### 24 FISHING

Fish is a major protein element in the Thai diet. Freshwater fish, abundantly found in rivers and canals, and marine fish (from the waters along the lengthy coastline) produced a catch of 2,923,579 tons in 2000 (9th in the world), as compared with 846,600 tons in 1967. Leading marine species in the 2000 harvest included (in tons): sardines, 187,772; anchovies, 158,833; Indian mackerels, 152,564; and threadfin breams, 95,500. Thailand exports cured fish to neighboring countries, and frozen shrimp and prawns mainly to Japan. In 2000, Thailand accounted for 7.9% of the world's exports of fish and fish products, valued at over \$4,367 million. Giant tiger prawn, tilapias, hybrid catfish, and green mussels accounted for most of the aquacultural volume.

### 25 FORESTRY

Thailand's forested area declined from 53% of the nation's land area in 1961 to only 28% by 2000, mainly as a result of the continued use of slash-and-burn practices by farmers. Of Thailand's 14.8 million ha (36.3 million acres) of forest, about 56% lies in the north, where teak and pine predominate. Rubber trees, planted mostly in the south, make up 10% of the forest area. The remainder consists of yang (keruing) plantations and rosewood, other species used as fuel, and smaller mangrove forests and conifers. Teak, once a major export, has declined in importance, largely because of government restrictions on cutting and past depletion of the forests through excessive harvesting and inadequate replanting. Yang, pradu, takien, krabak, and krabok

are other traditional hardwoods that have suffered severe production declines. Thailand imposed a ban on logging government-owned timber in 1989. Lac, a resinous insect substance found on trees, has always had value for the Thai, but its derivatives—seedlac, sticklac, and shellac—have also found a ready international market. Other important forestry products include charcoal, gums and resins, and kapok fiber and seed.

In 2001 production of roundwood was estimated at 41.3 million cu m (1.46 billion cu ft). Production of tropical hardwood products in 2000 included (in cubic meters): sawn wood, 294,000; wood pulp, 764,000; veneer, 89,000; and plywood, 91,000. Thailand is a negligible exporter of tropical logs and lumber. However, Thailand now exports primarily value-added wood products (mostly furniture, picture frames, utensils, and other items). Exports of wood products in 2000 totaled \$805.9 million. Imports of logs, timber, and wood products in 2000 were valued at \$1,323 million.

### 26 MINING

Thailand ranked second in tungsten and third in tin production in 2002, and ranked fifth in feldspar and eighth in gypsum in 2001. The country also had considerable resources of diatomite, dolomite, limestone, potash, rock salt, and a wide variety of other industrial minerals. In 2000, Thailand produced 50 mineral products and had 730 operating mines, of which 34% were limestone quarries; 652 of the sites were industrial mineral mines, 55 were metal mines, and 23 were coal mines. The mining industry employed 19,619, 24% of whom worked in limestone quarrying. Other important minerals were barite, natural gas, gemstones, lead, crude petroleum, silica, and zinc. Most mineral production was for domestic consumption, except for gypsum, and tin and its byproducts (ilmenite, monazite, struverite, tantalum, and zircon), 70% of which were exported. Thailand was a net importer of minerals, mainly because of its large import bills for coal, crude petroleum, iron and steel, primary aluminum, refined copper, gold, refined lead, and silver. Thailand's resources of most metallic minerals and fuel minerals were small. The mining and quarrying sector, which accounted for 2% of GDP in 2000, grew by 7.5% in 2000 and 9.1% in 1999, mainly as a result of a substantial increase in the production of crude petroleum and natural gas. Cement production was a leading industry in 2002.

Tin ore production in 2000 totaled 1,930 tons (metal content), most of it exported; tin was mined mainly on the southern peninsula—52% was produced from offshore dredging. Tin production has been steadily declining in the face of falling world prices and output curbs. Tungsten output (metal content) was 30 tons. Other metal minerals exploited on a small scale included antimony, cadmium, iron ore, lead, manganese, tantalum, zinc, and zirconium. Exports of 155 tons of tantalum metal powder earned \$42 million in 2000. Iron ore production dropped to 50 tons (metal content), from 61,000 tons in 1999, because iron ore mining operations stopped in the provinces of Nakhon Si Thammarat, Phetchabun, and Prachuap Khiri Khan. No gold or silver was produced in 1997–2000, nor monazite rare earths in 1998–2000. Development of Akara Mining's open-pit operation began in 2000 on the Chatree gold project (eastern edge of Chao Phraya Basin), and the 1.5 million ton per year operation was expected to produce 4,449 kg per year during its first three years, beginning in 2001. Total measured, indicated, and inferred resources for Akara Mining's area of exploration were 14.5 million tons (2.6 grams per ton of gold and 12 grams per ton of silver), of which proven and probable reserves were 8.2 million tons (3.1 grams per ton of gold and 14 grams per ton of silver).

Among industrial minerals, feldspar output was 542,991 tons, down from 684,983 in 1996; gypsum production was 5.83 million tons, down from 8.56 million tons in 1997—72% of gypsum came from Nakhon Si Thammarat and Surat Thani, and

4.2 million tons were exported, earning \$46 million. Hydraulic cement production was 25.5 million tons, down from 37.1 million tons in 1997. Thailand also produced barite, ball clay, kaolin clay, diatomite, metallurgical-grade fluorspar, gemstones (rubies, sapphires, topaz, and zircon), phosphate rock, salt, silica sand (glass), stone (calcite, dolomite, limestone, marble, marl, quartz, and shale), and talc and pyrophyllite. In addition, resources of bentonite and copper have been identified; bentonite has been mined. Exploration in the past five years has focused on copper, gold, and potash. Thailand could soon become an important producer of potash in Asia and the Pacific region—the Somboon deposit was estimated to contain more than 300 million tons of sylvinitic ore, with prospects for a 2 million ton per year potash mine, and the Udon deposit was estimated to contain more resources than the Somboon deposit. One copper deposit, at the Puthep project, near Loei, had ore reserves of 42 million tons of heap-leachable ore at a grade of 0.52% copper.

The government's underlying policy has been to conserve the country's mineral resources and to shift the emphasis to exploration, development, and exploitation of minerals consumed domestically, such as ball clay, feldspar, gypsum, kaolin, silica sand, limestone, lignite, phosphate, potash, rock salt, and zinc, and away from minerals that were predominantly exported, such as antimony, barite, fluorite, tantalum-columbium, tin, and tungsten. Thailand's mining industry consisted of a small mining and mineral-processing sector of ferrous and nonferrous metals and a large mining and mineral-processing sector of industrial minerals. All mining and mineral-processing businesses except coal, natural gas, and crude petroleum were owned and operated by private companies.

## 27 ENERGY AND POWER

From 1975 to 1994, total installed generating capacity increased from 2,755,000 kW to 13,861,000 kW. In 2000, 57.8% of primary energy consumed was derived from oil, 25% from natural gas, 9.3% from coal, and the remainder from other sources. Distribution, however, is far from adequate, with only about 20% of the population having access to the system. The Metropolitan Electrical Authority serves Bangkok; the Provincial Electricity Authority provides service to the rest of the kingdom. Total national output in 2000 was 94,300 million kWh, up from 15,948 million kWh in 1981 and only 1,092 million kWh in 1964. Fossil fuels accounted for 92.3% hydropower for 6.3%, and other renewable sources for the rest. Consumption of electricity in 2000 was 90.3 billion kWh. Installed capacity in 2001 was 20.8 billion kW.

Thailand is heavily dependent on imports of foreign oil. Proven and potential domestic deposits were estimated at 516 million barrels in early 2002, but exploitation and development have been inhibited by declining oil prices. In 2001, crude oil production amounted to about 175,027 barrels per day, mostly from the Sirikit oil field. Natural gas reserves were estimated at about 354 billion cu m in early 2002, and production has been aided by the exploitation of new fields in the Gulf of Thailand. Production in 2000 was put at 16 billion cu m, almost double the 1995 amount. The state-owned oil company, PTT, was partially privatized in 2001 when the government divested 32% of its stake. In 1999, the government introduced a new energy policy favoring increased use of natural gas. By 2001 it had completed the conversion of nearly all oil-fired power plants to natural gas.

## 28 INDUSTRY

Seven government agencies supervise the Thai industrial sector: the Ministries of Finance, Commerce, and Industry, the Board of Investment, the Industrial Finance Corporation, the Bank of Thailand, and the National Economic and Social Development Board, (NESDB) in charge of formulating five year development plans. In 1982, an eighth agency, the Industrial Restructuring

Committee, was created to coordinate the other seven and to formulate policy proposals in line with economic development plans. The main protective measures Thailand has used are import tariffs and price controls. Tariffs, low in the 1960s, were increased in the 1970s, some to above 90%, and price controls were pervasive. As part of the fifth economic development plan, 1982–1986, the government began to lower tariffs and relax price controls. In the economic boom of the early 1990s trade liberalization was continued particularly as the protection of infant industries became less important for Thailand's industrial growth than reducing the cost of imported capital goods and spare parts for rapidly expanding sectors like the automotive industry and electronics.

Manufacturing grew at an average rate of 12% annually in the 1960s and 10% in the 1970s. However, in the wake of the second oil shock in 1978–1979, rising interest rates, reduced global demand and falling commodity prices adversely affected manufacturing growth. In the period 1971 to 1985 Thailand continued to import most its manufactures, although there was impressive growth in some sectors. The production of food products nearly tripled, textiles grew by over 500% and transportation equipment showed even greater growth.

With the collapse of oil prices in 1986, Thailand was propelled into a decade-long boom led by its industrial sector in which the economy more than tripled, ending in the collapse of the baht in early July, 1997. Automobile production increased 750% 1986 to 1996, from 74,162 vehicles to a peak of 559,428. Annual growth for automobile production averaged 42.6% 1986 to 1990, and, after a 7% decline in the global recession of 1991, 15% 1992 to 1996. It was the world's fastest expanding automotive industry and Thailand also became the world's second-largest producer of motorcycles and pick-up trucks. Thai automobile producers invested in capacity expansion on the expectation that demand would grow to about one million cars a year, but the onset of the Asian financial crisis meant that these expectations were unmet. Production fell 35.6% to 360,303 units in 1997 and then another 56.1% to 158,130 units in 1998. Recovery began in 1999, with a 106.9% increase to 327,101 units, and 2000, with a further 25.9% increase to 411,721 units. By 2002, Thailand was on track to match the pre-crisis peak, with a projected production of 560,000 (56% of capacity). Similarly, motorcycle production by 2001 and 2002 had recovered to match the one-million-plus record set in 1997. Thailand's automobile sector consists of seventeen companies, the four largest being Auto Alliance Thailand (only pickup trucks in 2000), Toyota Motor Thailand, MMC Sittiphol, and Isuzu Motor Thailand, which together account for over 70% of production capacity.

By contrast, the cement industry, dependent more on the recovery of domestic demand, has not achieved pre-crisis production levels. Construction, one of the three leading growth sectors in the boom (with manufacturing and financial services), was the most severely impacted by the financial crisis. While the overall economy decreased 1.4% in 1997 and 10.5% in 1998, construction fell about 25% in 1997 and then over 38% in 1999, as landscapes that had been dominated by construction cranes were transformed into ones dominated by "For Sale" signs and unfinished buildings. Growth did not return to construction until 2002. Annual cement production, which grew from 18,834 tons in 1990 to a peak of 36,943 tons in 1997, was at 28,611 tons in 2002.

Textiles and garments remain Thailand's largest industry and second-largest source of exports (after electronics). This includes synthetic fibers production, which in 1995 was growing at a 25% annual rate, one of the fastest in the economy. About two-thirds of the output are ready-to-wear garments destined for markets in the United States and Western Europe. In 2000, there were an estimated 2,500 textile firms employing more than one million workers. By 2002 pre-crisis production levels had been achieved



and slightly bettered, but with a significant proportion of capacity unutilized.

Since 1985, electronics has been Thailand's leading manufacturing export sector, employing about 300,000 workers. Annual growth in electronics production has averaged over 20% over the past decade, with about 80% of the output exported. In 2000, electronics constituted one-third of all exports. Unlike most other manufacturing sectors, electronics production continued to grow during the financial crisis: the devaluation of the baht only made Thai electronic exports more competitive. Leading products include fully assembled computers, computer accessories, and integrated circuits in addition to a wide range of consumer electronics products.

Among the ASEAN nations during the decade of boom, Thailand became the largest producer of petrochemicals as well as cement, and textiles. Unlike most other industries, the refineries continued running near capacity during the crisis years 1997 to 1999. Refinery outputs reached 777,000 barrels per day in 1997, up 225% from 1990, then fell 4.6% in 1998 before recovering to a new high of 809,000 barrels per day (up 9.2%) in 1999. As of 2002, Thailand has seven oil refineries and a total refining capacity of 860,000 barrels per day. The four largest refineries are run by Shell Company of Thailand Ltd. at Rayong (275,000 barrels per day capacity), Thai Oil Company Ltd. at Sriracha (185,000 barrels per day), Esso Standard Thailand Ltd., at Sriracha (160,000 barrels per day) and Star Petroleum Refining Company at Rayong (130,000 barrels per day), respectively, accounting for over 87% of total refining capacity. Over a third of refined production is distillate fuel oil, production of which increased 350% 1990 to 1999. Motor gasoline and residual fuel oil each account for about 18% of refined outputs, which grew in triple digits, 186% and 126%, respectively, during the 1990s. Other important refinery outputs include jet fuel (about 9% of the total), and liquefied petroleum gases (about 10%).

One industry that showed uninterrupted annual increases during the crisis was the production of beer, the output of which grew 6.7% 1997 to 1998, and another 6.2% 1998 to 1999. Across the 1990s beer production increased 370%.

Overall industrial capacity utilization was 65% in 1997, and fell to 50% in 1998. By May 2002, utilization levels had reached 59.1%. The Bank of Thailand's manufacturing production index using 1995 as the base year was 107 in 1997 and had reached 122.9 in May 2002.

## 29 SCIENCE AND TECHNOLOGY

The lack of skilled workers remains a drag on industrial development. Many students seek technical training overseas, and some receive postgraduate education in specialized technical subjects at the Asian Institute of Technology in Bangkok (founded in 1959), which offers advanced degrees in agricultural engineering, human settlements, and computer applications. The institute also operates receiving equipment for LANDSAT transmissions that provide Southeast Asian countries with the aerial surveys vital to agricultural development, forest inventories, and city planning.

Scientific organizations include the Medical Association of Thailand (founded in 1921); the Thailand Institute of Scientific and Technological Research (1963), the principle government research agency; and the Science Society of Thailand (1948), all headquartered in Bangkok. National science policy is the responsibility of the Ministry of Science, Technology and Energy. Research and development expenditures in 1987-97 totaled 0.13% of GNP; 103 scientists and engineers and 39 technicians per 1 million population were engaged in research and development.

In addition to the Asian Institution of Technology, 15 other universities offer courses in basic and applied sciences. In 1987-

97, science and engineering students accounted for 18% of college and university enrollments. In 1998, high-tech exports were valued at \$12.6 billion and accounted for 31% of manufactured exports.

## 30 DOMESTIC TRADE

Bangkok, the port of entry and distribution point for the whole country, is the commercial center of Thailand; all foreign firms have their main offices there. Other commercially important cities are Chiang Mai (teak, rice, and textiles), Ubon Ratchathani (rice, jute, and leather), Phuket (tin), and Songkhla (rubber).

Many essential commodities are grown and consumed by the producer, or distributed at the local level. Production for the domestic market has continued to increase led by high growth industries such as construction materials, foods and beverages, and electronic appliances. In the greater Bangkok metropolitan area, almost every kind of retail outlet is represented, including specialty shops and over 40 department stores. As of 2002, there were about 250,000 retail outlets within the country, mostly small establishments. Department stores, discount stores, hypermarkets, and convenience stores are all available. Both local and foreign franchise firms have been successful. Rather than shop in traditional "wet markets," a growing number of Thai consumers are utilizing western-style supermarkets. Direct marketing, mail order, and television shopping have all become popular, particularly as credit cards have become more widely accepted. Newspaper, radio, television, and motion picture advertising is available.

Usual business hours are from 8 AM to 5 PM, Monday through Friday. Shops are open from 9 AM to 8 or 9 PM, and banks from 8:30 AM to 3:30 PM.

The annual Bangkok fair in December, originally conceived for entertainment, has developed into a trade fair.

## 31 FOREIGN TRADE

Thailand supplies the world with a large proportion of its natural rubber, rice, and seafood exports. The top 10 exports are as follows:

	% OF COUNTRY TOTAL
Transistors and valves	8.5
Automatic data processing equipment and parts thereof	12.4
Apparel	5.5
Telecommunications equipment	3.1
Preserved fish	3.0
Articles of plastic	3.0
Textiles	2.9
Shellfish	2.7
Rice	2.4
Natural rubber and gums	2.3

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

Consumer goods	5.8%
Food	3.3%
Fuels	12.3%
Industrial supplies	33.2%
Machinery	39.7%
Transportation	5.1%
Other	0.6%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	14,728	7,295	7,433
Japan	10,210	15,286	-5,076
China (inc. Hong Kong)	6,293	4,253	2,040
Singapore	6,016	3,402	2,614
Malaysia	2,820	3,342	-522
United Kingdom	2,366	949	1,417
Netherlands	2,251	529	1,722
Germany	1,639	1,948	-309
Australia	1,618	1,161	457
Korea	1,271	2,164	-893

### 32 BALANCE OF PAYMENTS

In 1996, a weakening economy and a decline in export growth created a current account deficit that amounted to 8% of GDP. Simultaneously, high interest rates and a currency tied to the dollar attracted money to an economy without sufficient productive assets to support the inflow. The government was forced to pursue a high interest-rate policy to protect the currency. When the cost of doing so got too high, the government let the currency float against the dollar, which resulted in a 20% devaluation. By mid-1997, Thailand's short-term debt obligations had reached \$23.4 billion, consuming three-quarters of its foreign reserve holdings. In August of 1997, Thailand agreed to an economic restructuring package with the IMF that included \$10–20 billion in standby credits. The GDP contracted by 10.8% in 1998, compared with an average growth rate of 8.5% from 1990 to 1996. The economy since the 1997–98 crisis subsequently rebounded, and strong export performance drove economic growth in 1999–2000. Nevertheless, structural reform was still needed, especially in agriculture, education, and small- and medium-sized businesses. Growth declined in 2001, due in part to the global economic downturn, a downturn in export demand, a slow pace of corporate debt restructuring, and a struggling financial sector. Severe Acute Respiratory Syndrome (SARS) negatively impacted trade and travel in 2003. Export and investment growth was expected to increase in 2004, which was expected to lead to an increase in import demand, and thus a slight slowdown in growth.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Thailand's exports was \$65.3 billion while imports totaled \$62.3 billion resulting in a trade surplus of \$3 billion.

The International Monetary Fund (IMF) reports that in 2001 Thailand had exports of goods totaling \$63.2 billion and imports totaling \$54.6 billion. The services credit totaled \$13 billion and debit \$14.6 billion. The following table summarizes Thailand's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	6,227
Balance on goods	8,582
Balance on services	-1,595
Balance on income	-1,361
Current transfers	601
<b>Capital Account</b>	...
<b>Financial Account</b>	-3,908
Direct investment abroad	-162
Direct investment in Thailand	3,820
Portfolio investment assets	-287
Portfolio investment liabilities	-932
Other investment assets	250
Other investment liabilities	-6,597
<b>Net Errors and Omissions</b>	155
<b>Reserves and Related Items</b>	-2,475

### 33 BANKING AND SECURITIES

The central bank is the Bank of Thailand, established in 1942. It operates as an independent body under government supervision; its entire capital is owned by the government. The Bank issues notes, a function previously handled by the Ministry of Finance.

The financial sector is broad and diverse. In 2002 there were 33 commercial banks operating the Thailand, 13 domestic and 19 foreign owned. The top three Thai banks are Krung Thai Bank, Bangkok Bank, and Thai Farmers Bank. Many of Thailand's domestic banks are owned by a few wealthy Chinese families. Shareholdings in even the largest banks, led by Bangkok Bank and the Thai Farmers Bank, are structured to insure family control. US banks with full branches in Thailand include Citibank, Chase Manhattan Bank, and Bank of America.

In general, Thai banks have suffered management problems in recent years and are having difficulty in complying with capital-adequacy and other requirements set by the Bank for International Settlements (BIS). The baht currency crisis dealt a severe blow to the banking industry and has prompted a major restructuring of the banking industry. By mid-2000, nonperforming loans accounted for about a third of total lending, down from a peak of almost 48% mid-1999. Thai banks are being forced to accept big write-offs by selling non-performing loans for as little as 30% of the loan's face value.

The Thai domestic banking system has been criticized for failing to mobilize adequate domestic savings and for not offering adequate incentives to savers. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$14.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$119.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 2%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3.75%.

Thailand's first public stock exchange was opened in Bangkok on 30 April 1975 (the Securities Exchange of Thailand-SET). All of its 30 members were Thai-owned securities firms. The Ministry of Finance encourages companies to go public by reducing income tax for listed companies and also by according favorable tax treatment of dividends. It was not until the late 1980s that the market was taken seriously by the international and domestic financial communities. Because of the Asian financial crisis, the stock exchange lost its appeal as a source of corporate funds. In 1998, however, a four-year downward trend was reversed on news of a strengthened baht. The rally could not be sustained and by year end the SET index was down 4.5%, a substantial improvement over the 55% decline in 1997. In all, the exchange lists 449 companies with a combined market capitalization of just over \$36 billion. The turnover ratio is high at over 109%. The SET index was up 12.9% in 2001, at 303.9.

### 34 INSURANCE

There is a wide variety of insurance companies doing business in Thailand, including the American International Assurance Co., the Asian Reinsurance Corp., Assets Insurance Co., Bangkok Insurance Public Co., Commercial Union Assurance Co., Guardian Assurance Co., Indara Insurance Public Co., Navakij Insurance Public Co., Paiboon Insurance Co., Phatra Insurance Co., Safety Insurance Co., Samaggi Insurance Co., the Thai Insurance Public Co., the Viriyah Insurance Co., and Wilson Insurance Co. In Thailand, both workers' compensation and third-party automobile liability are compulsory. The government's company, however, holds a monopoly on workers' compensation insurance. As of 2003, foreign investors were only allowed to own 25% of a Thai insurance company, but these regulations were slated to be relaxed within ten years.

### 35 PUBLIC FINANCE

Only a few utilities—power generation, transportation, and communications—are owned by the government, which is fiscally conservative in what is essentially a free-enterprise system. Following the Asian financial crisis of 1998, the Royal Government of Thailand has taken strong macroeconomic steps to stimulate the economy. However, several years of post-crisis deficit spending by the government in addition to the liabilities incurred in the international bailout program continue to weigh down the economy. The government's annual budget deficit as a percent of GDP was a manageable 1.4% in 1997, and then soared to a peak 5% of GDP in 1998. Although this ratio had declined to 3.3% by 2001 (still above a financially prudent 3% limit), the budget deficit was projected to increase to a near-record 4.8% in 2002.

The US Central Intelligence Agency (CIA) estimates that in 2000 Thailand's central government took in revenues of approximately \$19 billion and had expenditures of \$21 billion. Overall, the government registered a deficit of approximately \$2 billion. External debt totaled \$69.4 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	100.0%	19,000
Tax revenue	82.1%	15,606
Non-tax revenue	17.4%	3,311
Capital revenue	<0.1%	3
Grants	0.4%	80
EXPENDITURES	100.0%	21,000
General public services	8.6%	1,800
Defense	7.4%	1,553
Public order and safety	5.8%	1,227
Education	19.9%	4,169
Health	7.1%	1,499
Social security	6.0%	1,250
Housing and community amenities	5.1%	1,062
Recreation, cultural, and religious affairs	0.7%	144
Economic affairs and services	26.7%	5,605
Other expenditures	6.5%	1,371
Interest payments	6.3%	1,321

### 36 TAXATION

Personal income tax rates are graduated from 5–37%. Business and individual citizens are also subject to a host of indirect taxes, including customs duties, sales tax, and excise taxes. Corporate income taxes on net profits are levied at the flat rate of 30%. Stock dividends and capital gains are taxed as regular income.

As of September 2001, there are three value-added tax (VAT) rates. All VAT is refunded on exported goods, and small enterprises with less than 600,000 baht annual sales do not have to register for the VAT. Business with annual sales between 600,000 baht and 1.2 million baht can choose whether to pay a 7% VAT or a 1.2% tax on gross turnover. For larger companies, the VAT rate has been raised to 10%. Remittances out of Thailand in the form of profits, income, or dividends are taxed at 25%. In addition, a municipal tax of 10% is levied on certain businesses. Reductions are available under the Investment Promotion Act. Import surcharges, designed to deter imports, were imposed in 1981 at rates between 5% and 30% on certain fibers, piston rings, palm oil, and telephones.

There are excise taxes on tobacco, petroleum products, alcoholic beverages and soft drinks, and other products. Automobiles are subject to a special tax based on engine size.

Thailand has double taxation treaties with 33 countries, including the United States, Canada, Australia, Belgium, Denmark, Finland, France, and Germany. The US treaty has been in force since January 1998.

### 37 CUSTOMS AND DUTIES

Thailand's customs tariff is primarily for revenue, although in a limited fashion it protects local industry. No preferential treatment is afforded any country and all goods are subject to the general rate. Only a few goods require import licenses, including some foods, materials, and industrial products. Products banned from import include aerosol mixtures of vinyl chloride monomers (for health reasons) and products constituting trademark infringement.

The Thai government began to reduce tariffs in 1994, although progress was impeded in 1997 due to a shortfall in government revenue. Still, duties that had ranged between 30–60% have been cut to between 1–45% with the total number of tariff bands reduced from 39 to 6. There is a zero rate for essential items like medical equipment and fertilizer. The rate is 30% for certain items designated as needing special protection, like fabrics, clothing, refrigerators, and air conditioners. In addition to tariffs, some imports designated as luxury goods are subject to an excise tax.

Thailand is a member of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO). ASEAN members have established the ASEAN Free Trade Area (AFTA), which aims to reduce tariffs on most processed agricultural and industrial products traded among ASEAN countries to 0–5% by the year 2003. A proposal to link the economies of Australia and New Zealand to AFTA is also under discussion.

### 38 FOREIGN INVESTMENT

Growth of the Thai economy has been directly related to the flow of investments from abroad. In order to stimulate such investment, the government passed the Industrial Promotion Act (1962), which established the Board of Investment for Industry, renamed the Board of Investment (BOI) in 1972. National Executive Council Announcement Number 218, otherwise known as the Alien Business Law of 1972, restricted the participation of non-Thai nationals in certain types of business activities. The BOI, the powers and responsibilities of which were broadened in 1977, grants the following benefits to promoted industries: guarantees against nationalization and competition from government industries; exemption from import duties and business tax on plant, machinery, spare parts, and raw materials; exemption from duty on exports; exemption from tax on corporate income for a specified period; and repatriation of capital and remittance of profits abroad. In the wake of the Asian Financial Crisis, the Thai government embarked on an IMF-supervised program designed to make the economy more open and transparent for foreign investment. The 1972 Alien Business Law was replaced by the Alien Business Act of 1999, which opened additional business sectors to foreign investors, and raised the maximum ownership in some cases to above the old 49% limit. Limits on foreign ownership is most prominent in the financial sector, although now up to 100% ownership is permitted in Thai financial institutions for up to 10 years. A number of restrictions affect portfolio investments so that Thai authorities can track foreign investment.

In 1999 legislation was passed establishing a new bankruptcy court as well as new bankruptcy and foreclosure procedures, allowing, for instance, creditors to pursue payment from loan guarantors. Restrictions on property ownership were liberalized through amendment to the Land Code, the Condominium Act and the Property Leasing Act. Many of the reforms met political and were only partially and inconsistently implemented. In 2001

in the wake of the 11 September 2001 terrorist attacks on the United States there was a world wide contraction in foreign direct investment (FDI) and the government instituted a number of incentives to compete for scarcer investment funds., including tax incentives for firms to locate their regional headquarters in Thailand and several new government-backed investment funds to attract foreign money. To support its industrial exports, Thailand has ten export processing zones located within industrial estates to which businesses may import raw materials and export finished products duty free. Also, factories may apply to establish bonded warehouses on their premises to which raw materials used exclusively to produce exports may be imported duty free.

According to the BOI, in 1997 the net flow of FDI to Thailand was about \$3.3 billion and then more than doubled to \$7.4 billion in 1998. Net portfolio investment, by contrast, peaked at \$4.6 billion in 1997 and then fell to \$0.3 billion in 1998. Since 1998 net portfolio investment has been near zero and slightly negative, while FDI has decreased from \$5.7 billion in 1999 to \$3.8 billion in 2001 to an estimated \$2.7 billion in 2002. The inflow of foreign investment has in any case been insufficient to offset the loan repayments Thailand has been making since the onset of the financial crisis. The balance on its capital and financial account reached a low of -\$12.6 billion in 1998, but in 2002 this had moderated to a -\$4.2 billion. The major sources of FDI in 2001, excluding bank recapitalization, were Singapore and Malaysia, both the source of direct investment totaling over \$1.5 billion, followed by Japan, contributing about \$1.3 billion. Industry and services, particularly tourism, were the two major recipients of FDI in 2001. According to the Bank of Thailand, net direct investment from Thailand to other countries was negative in both 2000 and 2001, at -\$52 million and -\$171 million, respectively.

### 39 ECONOMIC DEVELOPMENT

The Thai government, vulnerable in its financial dependence on a few primary commodities (rice, rubber, tin, and teak), has pursued a policy of economic diversification through industrial development and increased agricultural production. With the beginning of the first development plan in 1961, the government committed itself to the primacy of private enterprise and to a policy of fostering and assisting it. Thailand has also followed a policy of foreign trade and exchange liberalization. Foreign exchange control is nominal.

Thailand's first five-year plan, covering the period 1961–66, aimed to raise the standard of living by means of greater agricultural, industrial, and power production. In the second development plan (1967–71), emphasis was placed on agricultural development, highways, irrigation, education, and industrial development in the private sector. The third development plan (1972–76) placed special emphasis on improvements in the rural infrastructure, growth in the financial and commercial sectors, and further assistance to crop diversification and to import-substitution industries. The government also committed itself to a reduction in the role of state-owned enterprises. The first three plans did much to increase the standard of living and to bring new roads, irrigation schemes, and land reform to the prosperous Bangkok region. But these changes also increased the income gap between rural and urban Thailand and drew increasing numbers of migrants to the city in search of work. Accordingly, the fourth economic plan, covering the years 1977–81, emphasized decentralization of industry and economic growth from the capital region to the provinces. It also ended the policy of encouraging import-substitution industries and began the promotion of export-oriented industries able to benefit from the nation's low wage rates. Plans were made for the establishment of industrial estates under the direction of the Industrial Estate Authority of Thailand.

The first estate, at Bangchan, 30 km (19 mi) from Bangkok, was fully occupied in 1980 by 51 companies, producing a range of industrial products, including automotive and electrical equipment, chemicals, and processed food. Another industrial estate, established in 1979 at Lard Krabang, also in the Bangkok vicinity, includes, in addition to a general industrial area, a duty-free export-processing zone open to manufacturers willing to establish high value-added and labor-intensive industries for export.

The fifth development plan, covering the years 1982–86, stressed reduction of rural poverty and social tensions and expansion of employment opportunities in the poorer regions. To this end, four investment promotion zones were established. After completion in 1981 of the natural gas pipeline from the Gulf of Thailand, investment priority was reassigned to the Eastern Seaboard Development Program. This ambitious program called for the creation of a new urban-industrial complex in the Rayong-Sattahip region that was expected to draw industries from the congested Bangkok area. Heavy industries were to be emphasized, with early construction of a natural gas separator and plants for the manufacture of soda ash, fertilizers, and petrochemicals. The sixth national economic and social development plan (1986–91) stressed continuing export promotion, streamlining of the public sector, and strict monetary and fiscal policies, with growth targeted at only about 5% yearly. Emphasis was placed on the less capital-intensive industries, and more emphasis was given to improved utilization of resources. The plan targeted private sector investment and initiatives. Privatization of state enterprises would proceed in clear-cut phases, and enterprises were required to seek their own revenue. Agricultural production was forecast to grow at 2.9% per year. The development of small-scale industry, particularly in rural areas, was emphasized. In 1993, the Eastern Seaboard Development Plan southeast of Bangkok—began 10 years before as a US\$4 billion investment—demonstrated results with the new port, Laem Chabang. This plan extends greater Bangkok, and the next phases include extending all main national arteries into four-lane highways and double-tracking the railway.

The sixth national development plan coincided with the early part of Thailand's ten-year boom, and most of its economic targets were more than met. The actual average annual rate of real GDP growth—10.5%—was more than twice the targeted 5%. In the seventh development plan, 1992 to 1997, coinciding with the second half of the decade of boom, targets had shifted to a stronger emphasis on balanced, sustained development, and less on growth per se. The plan was formally titled the seventh national development and social development plan. The three official emphases were 1) sustained, moderate growth (though with the target set at a rather heady 8.2% annual real growth rate); 2) redistribution of income and decentralization of planning to achieve reductions in the percent in poverty and in the widening gap between rich and poor; and 3) human resource development. To attain the goals, four sets of policy guidelines were stipulated: policies for stable, noninflationary growth; policies of income redistribution; policies for human resource development and policies for environmental protection. The real GDP growth target was met, though with concern that this was through a combination of a explosive industrial sector growing at an above-target average annual rate of 11.4% and a moribund agricultural sector, growing as below-target annual rate of 1.5%. Inflation averaged only 4.13% a year, better than the 5.6% targeted, but goals to eliminate Thailand's large balance of trade and current account deficits were not met. The average annual savings rate of 9.1% also fell below the plan's ambitious target of 12.8%. Poverty reduction, however, was substantial, with the percent of the population living in poverty falling from 32.6% in 1988 to 11.4% in 1996, which would prove to be its lowest point due to the on-set of the Asian Financial Crisis the next

year. Themes for each region guided development. In the north (Chiang-mai, Lamphrun, and Lampang), light and clean industries are encouraged, such as clothing, high-value electronics, and agro-industry. In the south, transport links and natural gas networks developed between the Andaman Sea and the Gulf of Thailand would attract heavy industry such as petrochemicals, and cross-border development with Malaysia would link with Penang's industrial sector. Development plans for the impoverished northeast included linking with Laos, Cambodia, and Viet Nam for processing raw materials from those countries, and for providing services involved with investment and manufacturing in those countries.

Thailand's eighth national development and social development plan, emphasizing again the concern with qualitative as well as quantitative growth, coincided with the onset of the Asian Financial Crisis and Thailand's struggle back to pre-crisis levels of economic activity, 1997 to 2001. The Plan, assuming a continuation of economic growth, put priority on two long-range economic development goals: human development and the replacement of top-down administration with bottom-up processes. Virtually none of the goals of the plan were met as the economy was plunged into recession and high inflation with the collapse of baht in July 1997. Whereas about a million people a year had been lifted out of poverty during the decade of boom, from 1997 to 1999 about a million and a half a year were plunged back into poverty, as the estimated number in poverty rose from 6.8 million to 9.8 million (16% of the population), and probably continued to increase into 2001. In August 1997 the eighth economic plan was essentially superseded by the IMF-guided international bailout program that involved a three-year, \$17.2 billion support package conditioned on a program of economic reforms. The IMF program did provide from the outset for "the protection of vital health and education expenditures in the central government budget," and, in fact, health expenditures rose by 8% 1997/98 even as revenues fell. The government adhered sufficiently close to the reform program to bring down inflation and replenish foreign reserves, undergirding the reforms with a new constitution. Thailand began repaying the IMF in November 2000 and repaying other lenders in 2001. Net capital flows were negative throughout the five-year planning period but by 2001 had improved to a -\$4.9 billion balance from -\$12.6 billion in 1998.

The introduction of the ninth national development and social development plan, to run 2001 to 2006, took a philosophical turn as the government presented it as embodying the king's concept of "sufficiency economy" as its guiding principle bestowed on the people as a means of helping his subjects overcome the economic crisis. "Sufficiency economy" was explained as based on adherence to the middle path, and involving moderation not just as a guide for economic policies but as a way of life. Balanced development was to be achieved through a combination of patience, perseverance, diligence, wisdom and prudence. The four pillars of the holistic approach of the ninth plan are social protection, competitiveness, governance, and environmental protection. Within this relatively abstract framework, the more specific elements of the Thaksin government's economic policy strategy in 2001 included the following seven elements: 1) farm debt restructuring, including a three year suspension of some debts owed by poor farmers to state banks; 2) village funds financed by grants of one million baht (about \$24,000) to each of the country's roughly 70,000 villages to provide locally administered micro-loans; 3) the transfer of non-performing loans (NPLs) to the newly established (as of June 2001) Thai Asset Management Corporation (TAMC), required of state-owned operations and voluntary for private ones, to promote more efficient debt restructuring; 4) special attention to small- and medium-sized enterprises (SMEs) by state-owned lending agencies; 5) promotion of product specialization

by village groups, called the "one tambon (group of five or six villages), one product" scheme inspired by a similar Japanese program; 6) the establishment of the People's Bank, administered through the Government Savings Bank (GSB), allowing GSB account-holders to apply for small loans (up to about 30,000 baht or \$370) mainly for small retailing or commercial ventures; and 7) a restructuring of the economy away from heavy dependence on imports and towards more reliance on local resources, especially agricultural.

#### 40 SOCIAL DEVELOPMENT

Since 1940, social welfare has been the responsibility of the government, and it is only in recent years that private organizations have actively engaged in social welfare programs. A 1990 law established a social security system which began paying disability and death benefits in 1991. Old age benefits (pensions) were introduced in 1998. The pension system is funded by employers, employees, and the government; each source contributed an amount equal to 1% of the employee's wages. The social security law also provides for sickness and maternity benefits, which are provided to employees of firms with 10 or more workers. Employers are required to provide workers' compensation coverage, including temporary and permanent disability benefits, and medical and survivor benefits.

Women have equal legal rights in most areas, but inequities remain in domestic areas, including divorce and child support. The 1997 constitution protects women through the inclusion of six gender-related articles pertaining to equal rights. In addition, gender-equality clauses have been included in legislation setting up new government entities mandated by the constitution. Women made up 44% of the work force, and hold professional positions. Discrimination in hiring persists, and there is a gender gap in wages. Domestic abuse and violence remain a huge problem.

Many women are trapped into prostitution through a system of debt bondage. Brothels provide a loan to parents of young women, and these women are required to work as prostitutes to pay off the loan. In many cases, this is done without the consent of the woman involved. Under the Penal Code, furthermore, prostitutes are considered criminals, but brothel owners and clients are not.

Many Thai minorities, including many of the hill tribe members, lack any type of documentation. As noncitizens, they do not have full access to education and health care. They lack titles to their land, and may not vote in elections. The government has announced its intention to process and document these groups.

Human rights are generally well respected, but some abuses occur. Coerced confessions and the torture of suspects are occasionally reported. Overcrowding in prisons has resulted in poor conditions.

#### 41 HEALTH

In the 1960s, the government, with UN and US assistance, extended free medical treatment, expanded health education activities in schools and rural areas, and built many hospitals. In the private sector, two-thirds of health care funding comes from employers and private households. A national social security scheme is under way, but private insurers are few. Owing largely to success in eradicating malaria and other tropical diseases, as well as to better sanitation and medical care, health conditions have steadily improved in Thailand.

Health care facilities are concentrated in the Bangkok metropolitan area, where about 15% of the population is located. In 1989, there were 180 private hospitals and more than 11,000 private clinics. Thai hospitals tend to be small in size. In 1990-97, there was a nurse to doctor ratio of 5.5. In 2000, 80% of the population had access to safe drinking water and 96% had

adequate sanitation. In 1993, about 59% of the population had access to health care services. As of 1999 total health care expenditure was estimated at 6% of GDP.

Common diseases as of 1995 are malaria (115,220), tuberculosis (20,260), and leprosy (5,126). As of 2000, 13% of children under five years of age were considered malnourished. About 7% of births in 1999 were of low birth weight. The 1990–95 immunization rates for a child under one were as follows: diphtheria, pertussis, and tetanus, 93%; polio, 93%; measles, 86%; and tuberculosis, 98%. As of 1999 the rates for DPT and measles were, respectively, 97% and 96%.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 16.4 and 7.6 per 1,000 people. In 2000, 72% of married women (ages 15 to 49) used contraception. In the same year, life expectancy was 69 years and infant mortality was 28 per 1,000 live births. Maternal mortality was 44 per 100,000 live births in 1998.

The HIV epidemic in Thailand is among the best documented in the world. Among brothel sex workers, the HIV infection rose from 3.5% in 1989 to 33% in late 1994. There were 22,135 AIDS cases reported in 1995, the most cases reported in all of Asia. As of 1999, the number of people living with HIV/AIDS was estimated at 755,000 and deaths from AIDS that year were estimated at 66,000. HIV prevalence was 2.2 per 100 adults.

Tobacco consumption has risen from 1.9 kg (4.2 lbs) in 1984–86 to 2.0 kg (4.4 lbs) a year per adult in 1995.

## 42 HOUSING

Most families in Thailand live in dwellings that compare favorably with living facilities anywhere in Southeast Asia. The Thai government has stimulated housing and community development by means of a housing plan that provides government mortgages for building, renovation, or purchase of government land and houses. Under a self-help settlement scheme, the government sets up whole new communities, surveys sites, constructs roads and irrigation systems, and provides public utilities and medical care.

In 1973, to house Bangkok residents who had been living in makeshift shelters, the government formed the National Housing Authority (NHA), which undertook overall responsibility for coordination of public and private housing programs. By 1979, the NHA had completed 54,780 housing units. From 1979 to 1984, a total of 1,442,250 housing units were built in Thailand.

According to the preliminary results of the 2000 census, there were about 15,662,300 households nationwide. The average household had 3.9 people. About 79.7% of all households lived in detached houses. About 81.6% of all households were in owned dwellings.

## 43 EDUCATION

The rate of adult illiteracy has been in decline. For the year 2000, adult illiteracy rates were estimated at 4.4% (males, 2.8%; females, 6.0%), a drop from an overall adult illiteracy rate of 6.2% in 1995. Compulsory education provisions, first introduced in 1921, call for universal school attendance starting at age seven through the fourth year of primary school or through age 15. In 1998 primary schools enrolled 5,927,902 students. Secondary schools in the same year enrolled 4,097,331 students. The pupil-teacher ratio at the primary level was 21 to 1 in 1999. In the same year, 81% of primary-school-age children were enrolled in school, while 55% of those eligible attended secondary school. Both teacher training and technical and vocational training (especially in agriculture) have been stressed in recent development plans. As of 1999, public expenditure on education was estimated at 4.7% of GDP.

In 1998, about 1,522,142 students were enrolled in higher education programs. In Bangkok, Chulalongkorn University (founded 1917) is Thailand's most eminent university. Also in

Bangkok are the University of Thammasart (founded 1933), specializing in social and political sciences, and Kasetsart University (founded 1943) specializing in agriculture. Newer universities established in provincial areas include Chiang Mai University (founded in 1964), Khon Kaen University (founded in the northeast in 1966), and Prince of Songkhla University (founded in 1968). King Mongkut's Institute of Technology was formed in 1971 through the amalgamation of three institutes, and eight colleges of education were combined into Sri Nakharinwirot University in Bangkok in 1974. A correspondence school, the University of Ramkhamhaeng, opened in Bangkok in 1974 and the Sukhothai Thammathirat Open University began operations in 1978. In total there are 16 state universities in addition to 26 privately run colleges. There are also a large number of teacher training colleges.

## 44 LIBRARIES AND MUSEUMS

The National Library (founded in 1905) contains about 2.4 million books and over 300,000 manuscripts. Other important libraries in Bangkok include the Asian Institute of Technology (200,000 volumes), Chulalongkorn University (264,700), the University of Thammasat (231,000), Kasetsart University (313,000), and Sri Nakharinwirot University (299,500). The Library of the Department of Science Services maintains a special collection of 450,000 volumes. Outside Bangkok, sizable collections are maintained at the University of Chiang Mai (655,000) and Khon Kaen University (340,000). The Economic and Social Commission for Asia and the Pacific holds 150,000 volumes.

The National Museum in Bangkok (founded in 1926) has an extensive collection of Thai artifacts, including sculptures, textiles, ceramics, jewels, coins, weapons, and masks. Many of Bangkok's temples and palaces contain excellent examples of Thai frescoes and sculptures. The Temple of the Emerald Buddha has a famous mural of the Ramayana, the Sanskrit epic, and the Marble Temple contains a fine collection of bronze and stone Buddhas.

Bangkok also houses the Bhirasi Institute of Modern Art, the Hill Tribes Museum, the Science Museum, and the Sood Sanquichien Prehistoric Museum and Laboratory. There are dozens of other provincial museums throughout the country. The Hall of Opium Museum is set to open in 2003 near Chiang Rai.

## 45 MEDIA

The Ministry of Communications is responsible for Thailand's public postal, telegraph, and telephone services. The postal service, employing both railway and air mail, operates from the central post office in Bangkok and covers the entire country. Telephone service now reaches the principal towns, with 5.6 million main telephone lines in use in 2000, of which over 70% were in metropolitan areas. In 2002, there were an additional 3.1 million cellular phones in use. Thailand is a member of INTELSAT and maintains trans-Pacific and Indian Ocean satellite communications stations.

Ownership of broadcasting is both public and private. There are about six government and military radio networks. The first mainland Asian television station was established in Bangkok in 1955. As of 1999, there were 204 AM and 334 FM radio stations, and 5 television stations. In 2000 Thailand had 235 radios and 234 television sets, and 33 mobile phones per 1,000 population. In 2000, there were 2.3 million Internet subscribers served by 15 service providers.

The first daily newspaper, the *Siam Daily Advertiser*, appeared more than a century ago. In 2002 there were at least 35 daily newspapers published in Bangkok, including seven in Chinese and four in English. The provinces have weekly and semiweekly publications, all in Thai, but no daily papers. Bangkok also has a variety of weekly and monthly periodicals, most appearing in

Thai. Among Bangkok's leading daily newspapers (with language and estimated 2002 daily circulation) were:

	LANGUAGE	CIRCULATION
<i>Thai Rath</i>	Thai	800,000
<i>Naew Na</i>	Thai	200,000
<i>Matichon Daily News</i>	Thai	180,000
<i>Diao Siam</i>	Thai	120,000
<i>Khoa Sod Daily News</i>	Thai	120,000
<i>Siam Rath</i>	Thai	120,000
<i>Phaya Crut</i>	Thai	100,000
<i>Srinakorn Daily News</i>	Chinese	80,000
<i>Sing Sian Yit Pao</i>	Chinese	70,000
<i>Daily Mirror</i>	English	60,000

Citizens are said to enjoy constitutionally provided freedom of speech and a free press. However, the law prohibits criticism of the royal family, threats to national security, and insults to Buddhism.

#### 46 ORGANIZATIONS

Thailand has an extensive cooperative movement. Credit societies are the dominant type of cooperative; consumer cooperatives are the next largest, followed by agricultural marketing and processing cooperatives. Other kinds of cooperatives, mostly formed during and since the 1930s, include colonization and land improvement cooperatives. Trade organizations under the Ministry of Economic Affairs include the Thai Chamber of Commerce, the Board of Trade, and several foreign trade associations.

Professional associations promoting research and development include the Agricultural Science Society of Thailand, the Medical Association of Thailand, and Science Society of Thailand. There are a number of ASEAN organizations with a base in Thailand, including the ASEAN Institute for Health Development, ASEAN Institute for Physics, and the ASEAN Solar Energy Network.

Cultural organizations include the Royal Institute (founded 1933); the Thai-Bhara Cultural Lodge (founded 1940), which sponsors studies in the fields of linguistics, philosophy, and religion; and the Siam Society (founded 1904), which issues studies on Thai art, literature, and science. The National Culture Commission was established in 1979. The multinational organization of the World Fellowship of Buddhists is based in Bangkok.

National youth organizations include the Student Federation of Thailand, the National Scout Organization of Thailand, and YMCA/YWCA. Social action groups include the Asian Coalition for Housing Rights, Asian Forum for Human Rights and Development, and the National Council of Women of Thailand. The Red Cross is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism has become a vital industry in Thailand, offering a range of attractions from outdoor activities to museums and cultural events. Most tourists visit Bangkok and its Buddhist temples (wats). Major sports include soccer and baseball. Thai bull, cock, and fish fighting are also popular (though illegal), along with Thai boxing, golf, badminton, and kite fighting. All visitors must have passports; visitors from most countries may stay up to 15 days without a visa. Typhoid, tetanus, and gamma globulin immunizations are recommended, especially for travel in rural areas. Yellow fever inoculation is required of tourists arriving from an infected area.

In 2000, \$7 billion was spent in the country by 9,578,826 foreign visitors. That year there were 318,812 hotel rooms with a 51% occupancy rate.

The average daily cost of staying in Bangkok, according to 2000 US government estimates, was \$182 per day. Elsewhere in Thailand, estimated travel costs range from \$80+ in Cha Am to \$98+ in Nakhon Ratchasima.

#### 48 FAMOUS THAI

Many ancient Thai kings enjoy legendary reputations. Rama Khamheng (the Great), a 13th-century monarch, is traditionally regarded as the inventor of the Thai alphabet; Rama Tibodi I in the 14th century promulgated the first-known Thai laws; Trailok instituted lasting governmental reforms in the 15th century; and Phya Tak in the 18th century rebuilt a war-defeated Thailand. Two great monarchs, Mongkut (r.1851–68) and his son Chulalongkorn (r.1868–1910), became famous for introducing Thailand to the modern world. They are, respectively, the king and his young successor in Margaret Landon's *Anna and the King of Siam*. Further progress toward modernization was accomplished in by three outstanding premiers: Phibul Songgram (1897–1964), Pridi Banomyong (1900–83), and Sarit Thanarat (1900–63). Prince Wan Waithayakon (1891–1976), foreign minister and Thailand's representative to the UN, played a major role in diplomacy following World War II. Marshal Thanom Kittikachorn (b.1911) was leader of Thailand from 1963 until October 1973, when political protests compelled his resignation as prime minister. King Bhumibol Adulyadej (b.US, 1927) ascended the throne in 1946.

Prince Akat Damkoeng was the author in 1940 of the first modern novel written in Thailand, *Yellow Race, White Race*. Modern styles in painting and sculpture are reflected in the work of Chitr Buabusaya and Paitun Muangsomboon (b.1922), and the traditional manner in the art of Apai Saratani and Vichitr Chaosanket.

#### 49 DEPENDENCIES

Thailand has no territories or colonies.

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# TONGA

Kingdom of Tonga  
*Pule'anga Tonga*

**CAPITAL:** Nuku'alofa, Tongatapu

**FLAG:** The flag, adopted in 1862, is crimson with a cross of the same color mounted in a white square in the upper left corner.

**ANTHEM:** *Koe Fasi Oe Tu'i Oe Otu Tonga (Tongan National Anthem)* begins "‘E ‘Otua Mafimafi Ko homau ‘Eiki Koe" ("O Almighty God above, Thou art our Lord and sure defense").

**MONETARY UNIT:** The Tongan pa'anga (T\$) of 100 seniti is a paper currency at par with the Australian dollar. There are coins of 1, 2, 5, 10, 20, and 50 seniti, and 1 and 2 Tongan pa'angas, and notes of ½, 1, 2, 5, 10, 20, and 50 pa'angas. T\$1 = US\$0.4926 (or US\$1 = T\$2.03; in March 2003).

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some imperial and local weights and measures also are employed.

**HOLIDAYS:** New Year's Day, 1 January; ANZAC Day, 25 April; Crown Prince's Birthday, 4 May; Independence Day, 4 June; King's Birthday, 4 July; Constitution Day, 4 November; Tupou I Day, 4 December; Christmas, 25–26 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** 1 AM (the following day) = noon GMT.

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

The Tonga archipelago, also known as the Friendly Islands, lies scattered east of Fiji in the South Pacific Ocean. Nuku'alofa, the capital, is about 690 km (430 mi) from Suva, Fiji, and about 1,770 km (1,100 mi) from Auckland, New Zealand. Consisting of 171 islands of various sizes, only 45 of which are inhabited, Tonga has a total area of 748 sq km (289 sq mi), including inland waters as well as Teleki Tokelau and Teleki Tonga (formerly the Minerva Reefs). Comparatively, the area occupied by Tonga is slightly more than four times the size of Washington, D.C. It extends 631 km (392 mi) NNE–SSW and 209 km (130 mi) ESE–WNW. The major islands are Tongatapu and 'Eua, Ha'apai, Vava'u, Niuatoputapu and Tafahi, and Niuafu'ou. Tonga's total coastline is about 419 km (260 mi).

The capital city of Nuku'alofa is located on Tongatapu.

## <sup>2</sup>TOPOGRAPHY

The islands run roughly north–south in two parallel chains; the western islands are volcanic and the eastern are coralline encircled by reefs. At 10,800 m (35,400 ft) deep, the Tonga Trench is one of the lowest parts of the ocean floor. The soil on the low-lying coral islands is porous, being a shallow layer of red volcanic ash, devoid of quartz, but containing broken-down limestone particles.

The volcanic islands range in height to a maximum of 1,033 m (3,389 ft) on Kao. Fonuafo'ou (formerly Falcon Island), about 65 km (40 mi) northwest of Nuku'alofa, is famous for its periodic submergences and reappearances, as a result of earthquakes and volcanic action. There are few lakes or streams. Tofua, Vava'u, Nomuka, and Niuafu'ou each have a lake, and there are creeks on 'Eua and one stream on Niuatoputapu. Other islands rely on wells and the storage of rainwater to maintain a water supply.

## <sup>3</sup>CLIMATE

The climate of Tonga is basically subtropical. Because the islands are in the southeast trade wind area, the climate is cooler from May to December, when the temperature seldom rises above 27°C

(81°F). The mean annual temperature is 23°C (73°F), ranging from an average daily minimum of 10°C (50°F) in winter to an average maximum of 32°C (90°F) in summer. Average annual rainfall, most of which occurs from December to March during the hot season, is 160 cm (63 in) on Tongatapu, 257 cm (101 in) on Niuatoputapu, and 221 cm (87 in) on Vava'u. The mean relative humidity is 80%.

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

Coconut palms, hibiscus, and other tropical trees, bushes, and flowers are abundant. Tonga is famous for its flying foxes.

## <sup>5</sup>ENVIRONMENT

Agricultural activities in Tonga are exhausting the fertility of the soil. The forest area is declining because of land clearing, and attempts at reforestation have had limited success. Water pollution is also a significant problem due to salinization, sewage, and toxic chemicals from farming activities. The impurity of the water supply contributes to the spread of disease. The nation is also vulnerable to cyclones, flooding, earthquakes, and drought. The government has established a Water Master Plan to manage the nation's water resources for two decades. The National Development Plan is a more comprehensive attempt to address the nation's environmental concerns.

There has been some damage to the nation's coral reefs from starfish and from coral and shell collectors. The Fiji banded iguana, and the loggerhead, green sea, and hawksbill turtles are endangered. Overhunting threatens the native sea turtle populations. The Tonga ground skink has become extinct.

## <sup>6</sup>POPULATION

The population of Tonga in 2003 was estimated by the United Nations at 104,000, which placed it as number 178 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 41% of the population under 15 years of age. There were 103 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is



0.97%, with the projected population for the year 2015 at 115,000. The population density in 2002 was 135 per sq km (349 per sq mi). However, only 45 of the nation's 171 islands are inhabited.

It was estimated by the Population Reference Bureau that 38% of the population lived in urban areas in 2001. The capital city, Nuku'alofa, had a population of 37,000 in that year. The city is on the island of Tongatapu, where two-thirds of the population resides. According to the United Nations, the urban population growth rate for 2000–2005 was 1.7%.

## 7 MIGRATION

There is considerable movement toward the larger towns as population pressure on agricultural land increases. Some ethnic non-Tongans born on the islands migrate mainly to Fiji and New Zealand. Emigration by Tongan workers, both skilled and unskilled, has long been of concern to the government. In 1989 approximately 39,400 Tongans lived in the United States, Australia, and New Zealand. There are expatriate Tongan communities in Brisbane and Sydney (Australia), Auckland (New Zealand), San Francisco (United States), and on Hawaii. Persons wishing to reside in Tonga must obtain a government permit; permission is granted only to those taking up approved employment. Immigrant settlement is not encouraged because of the land shortage. The net migration rate in 1999 was -1.19 migrants per 1,000 population. There were an estimated 2,000 migrants in Tonga in the year 2000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The Tongans are a racially homogeneous Polynesian people. Less than 2% of the population is of European, part-European, Chinese, or non-Tongan Pacific island origin.

## 9 LANGUAGES

Tongan, a Polynesian language not written down until the 19th century, is the language of the kingdom, but government publications are issued in both Tongan and English, and English is taught as a second language in the schools.

## 10 RELIGIONS

Over 98% of Tongans are Christian. According to the 1996 census, 41% of the population are members of the Free Wesleyan Church of Tonga (Methodist); 16% are Roman Catholics; 14% are members of the Church of Jesus Christ of Latter-Day Saints; 12% are of the Free Church of Tonga; and 17% belong to other churches, including Seventh-Day Adventists, the Assembly of God, the Tokaikolo Church (a local offshoot of the Methodist Church), Anglicans, the Baha'is, Muslims, and Hindus.

## 11 TRANSPORTATION

In 2002, Tonga had 680 km (423 mi) of roadways, of which 184 km (114 mi) were paved. There are no bridges in Tonga, but three islands in the Vava'u group are connected by two causeways. Tonga has no railways.

Nuku'alofa and Neiafu are the ports of entry for overseas vessels. In 2002, the merchant fleet consisted of 80 ships, some of them foreign owned ships registered as a flag of convenience, with a total of 292,139 GRT. Work on extending the port at Nuku'alofa began in 1985. The Pacific Forum Line and the Warner Pacific Line maintain scheduled service from Australia and New Zealand to Tonga via the Samoas and other islands, and cargo ships visit the group from time to time for shipments of copra. Internal sea connections are maintained by the Polynesia Triangle and by the Shipping Corp. of Polynesia.

In 2001, there were six airports, only one of which had a paved runway. Fua'Amotu International at Tongatapu is Tonga's principal airport. Air Pacific, Air New Zealand, Polynesian

Airlines, and Hawaiian Air operate scheduled international flights from Fua'Amotu. The government-owned Friendly Island Airways has scheduled flights between Tongatapu, Ha'apai, 'Eua, Vava'u, and Niuatoputapu. In 2001, 56,800 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Since the Tongan language was not written down until the 19th century, the early history of Tonga (which means "south") is based on oral tradition. Hereditary absolute kings (Tu'i Tonga) date back to Ahoaitu in the 10th century. Around the 14th century, the twenty-third king, Kau'ulufonua, while retaining his sacred powers, divested himself of much of his executive authority, transferring it to his brother Ma'ungamotu'a, whom he thereafter called the Tu'i Ha'atakalaua. About the middle of the 17th century, the seventh temporal king, Fotofili, transferred the executive power to his brother Ngala, called the Tu'i Kanokupolu, and thereafter the powers gradually passed into the hands of the latter and his descendants. According to tradition, in the mid-19th century, upon the death of the then Tu'i Tonga, those powers were conferred upon the nineteenth Tu'i Kanokupolu, Taufa'ahu Tupou, founder of the present dynasty.

European chronicles disclose that the island of Niuatoputapu was discovered by the Dutch navigators Jan Schouten and Jacob le Maire in 1616. In 1643, Abel Tasman discovered Tongatapu, and from then until 1767, when Samuel Wallis anchored at Niuatoputapu, there was no contact with the outside world. Capt. James Cook visited the Tongatapu and Ha'apai groups in 1773 and again in 1777, and called Lifuka in the Ha'apai group the "friendly island" because of the gentle nature of its people—hence the archipelago received its nickname, the Friendly Islands. It was in the waters of the Ha'apai group that the famous mutiny on the British ship *Bounty* occurred in 1789. The first Wesleyan missionaries landed in Tonga in 1826.

The first half of the 19th century was a period of civil conflict in Tonga, as three lines of kings all sought dominance. They were finally checked during the reign of Taufa'ahu Tupou, who in 1831 took the name George. By conquest, George Tupou I (r.1845–93) gathered all power in his own hands and united the islands; he abolished the feudal system of land tenure and became a constitutional monarch in 1875. Meanwhile, by the middle of the century, most Tongans had become Christians, the great majority being Wesleyans, and the king himself was strongly influenced by the missionaries.

In the latter part of the century, there were religious and civil conflicts between the Wesleyan Mission Church and the newly established Free Wesleyan Church of Tonga. After the dismissal of the prime minister, the Rev. Shirley Waldemar Baker, in 1890, the new government allowed full freedom of worship. Ten years later, during the reign (1893–1918) of George II, a treaty of friendship was concluded between the United Kingdom and Tonga, and a protectorate was proclaimed. During World War II, Tongan soldiers under Allied command fought the Japanese in the Solomon Islands, and New Zealand and US forces were stationed on Tongatapu, which served as an important shipping point.

Two more treaties of friendship between the United Kingdom and Tonga were signed in 1958 and 1968, according to which Tonga remained under British protection, but with full freedom in internal affairs. On 4 June 1970, Tonga ceased being a British protectorate and became an independent member of the Commonwealth of Nations, with King Taufa'ahau Tupou IV—who had succeeded to the throne upon the death of his mother, Queen Salote Tupou (r.1918–65)—as head of state. The new status brought few immediate changes, apart from the fact that it added Tongan control of foreign affairs to self-rule in domestic matters.

In 1972, Tonga claimed the uninhabited Minerva Reefs (now Teleki Tokelau and Teleki Tonga), situated about 480 km (300 mi) southwest of Nuku'alofa, in order to prevent an Anglo-American corporation from founding an independent Republic of Minerva on the reefs in order to gain certain tax advantages. The nation in 1973 celebrated the bicentennial of Cook's first visit by inaugurating the new runway for jet aircraft at the main airport, near Nuku'alofa. The worst tropical storm in Tonga's history, Cyclone Isaac, devastated the islands in March 1982.

Many of the government's strongest critics gained seats in the 1987 legislative elections; the unprecedented turnover was thought to reflect changing attitudes toward traditional authority. However, the traditional leaders continued in charge of the government, with Prince Fatafehi Tu'iipelehake elected as prime minister. The island's dissident pro-democracy movement, led by Akilisi Pohiva, won the February 1990 general election, but it remained a minority within the legislature. A government scandal over selling Tongan passports to Hong Kong Chinese led to popular support for the opposition. Baron Vaea replaced Prince Fatafehi Tu'iipelehake as prime minister in August 1991. King Taufa'ahu Tupou IV organized the Christian Democratic Party in time for the 1993 election to provide greater coordination for his supporters and to weaken the democracy movement. However, pressure from the pro-democracy forces continued in the February 1993 general election when the People's Democratic Movement won six of the nine seats open.

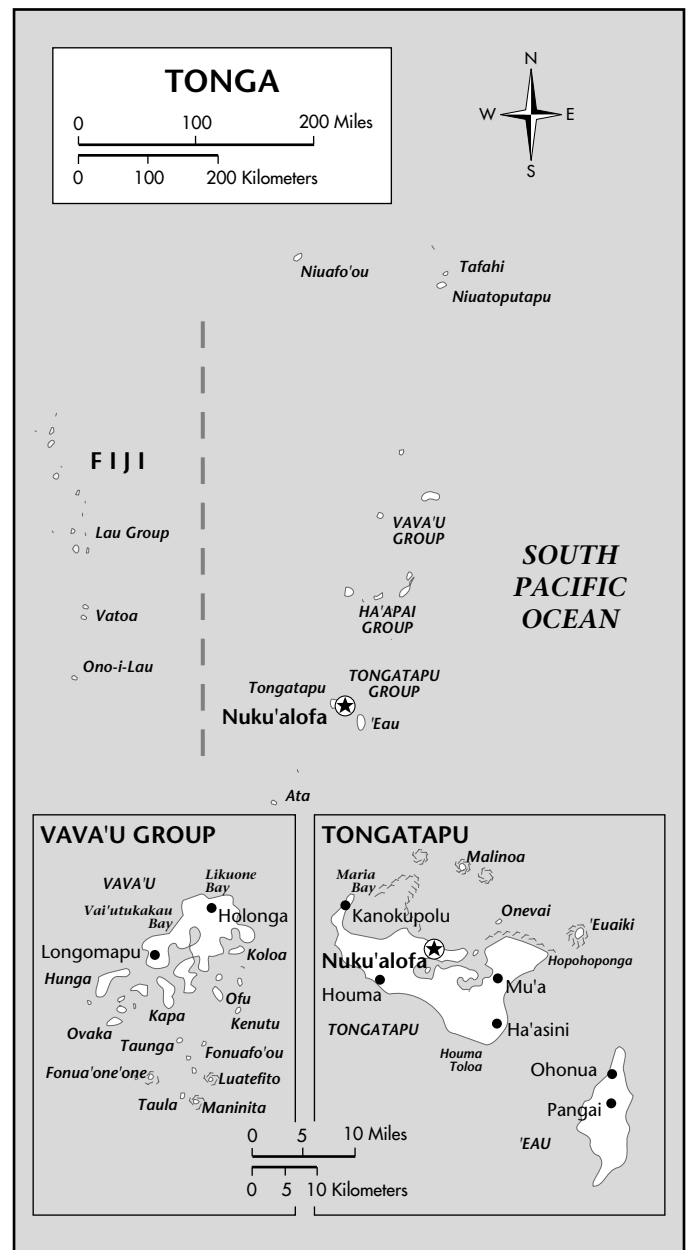
Parliamentary elections were held in March 1999, when about 51% of eligible voters cast ballots, the lowest voter turnout in the country's history. Five of the nine members elected were from the Human Rights and Democracy Movement (HRDM). King Taufa'ahu Tupou IV appointed his youngest son, 41-year-old Prince Lavaka Ata Ulukalala prime minister in January 2000. When the previous prime minister retired, observers speculated that the king's oldest son, Crown Prince Tupouto'a, would be named prime minister. It is likely that Tupouto'a was passed over for the post because of his stated opposition to preserving the king's right to make lifetime appointments. His younger brother, who became the country's fourth prime minister since 1950, has been outspoken in his criticism of the country's democracy movement.

Fifty-two candidates ran for the nine people's representative seats in the legislature in March 2002; the HRDM won seven of the seats. Although the movement's improvement in electoral standing may signal popular support for democratic reform, it is seen as the king's prerogative to initiate change.

Tonga experienced a financial scandal in 2001, when the king's official court jester, an American businessman, invested \$26 million in a government trust fund that subsequently disappeared. The money had been raised by the sale of Tongan citizenship and special passports to Asians, especially Hong Kong Chinese concerned with the transfer of Hong Kong to China. The \$26 million represented more than half the government's annual budget.

### 13 GOVERNMENT

Tonga is an independent kingdom. According to the constitution of 1875, as amended, the government is divided into three main branches: the sovereign, Privy Council, and cabinet; the Fale Alea (Legislative Assembly); and the judiciary. The King-in-Council is the chief executive body, and the cabinet, presided over by the appointed prime minister, makes executive decisions of lesser importance. The prime minister is appointed for a life term. Lawmaking power is vested in the 30-member Legislative Assembly, which consists of 12 members of the cabinet sitting *ex officio*, 9 nobles elected to three-year terms by the 33 hereditary nobles of Tonga, and 9 representatives popularly elected to three-year terms. Sessions must be held at least once in every calendar year. Legislation passed by the Privy Council is subject to



LOCATION: 15° to 23°30' S; 173° to 177° W. TERRITORIAL SEA LIMIT: 12 miles.

approval at the next meeting of the Legislative Assembly. Women voted for the first time in 1960, and the first woman was elected to the legislature in 1975. All literate citizens 21 years of age or older are eligible to vote.

### 14 POLITICAL PARTIES

The Tonga People's Party (TPP), led by Viliami Fukofuka, and the pro-democracy Human Rights and Democracy Movements, led by Akilisi Pohiva's were the principal political parties active in 2003.

### 15 LOCAL GOVERNMENT

The islands are divided administratively into three districts: Vava'u in the north, Ha'apai in the center, and Tongatapu in the south. Ha'apai, Vava'u, and the outlying islands are administered

by governors who are members of the Privy Council and are responsible to the prime minister. Minor officials perform statutory duties in the villages. Town and district officials have been popularly elected since 1965. They represent the central government in the villages; the district official has authority only over a group of villages.

Titles of nobility were first bestowed in 1875, and later in 1882, 1887, 1903, and 1923. With the hereditary titles were granted villages and lands.

## 16 JUDICIAL SYSTEM

The Supreme Court exercises jurisdiction in major civil and criminal cases. Other cases, heard in the Magistrate's Court or the Land Court, may be appealed to the Supreme Court and then to the Court of Appeal, the appellate court of last resort. The Privy Council has jurisdiction over cases on appeal from the Land Court dealing with titles of nobility and estate boundaries. With the ratification of the 1968 friendship treaty, UK extraterritorial jurisdiction lapsed, and British and other foreign nations became fully subject to the jurisdiction of the Tongan courts. The judiciary is independent of the king and the executive branch, although Supreme Court justices are appointed by the king. Criminal defendants are afforded the right to counsel and the right to a fair public trial is protected by law and honored in practice. The king may commute a death sentence. In addition, the court system consists of a court martial for the Tonga Defense Services, a court tribunal for the police force, and a court of review for the Inland Revenue Department.

## 17 ARMED FORCES

The Tonga Defense Force was organized during World War II, became defunct in 1946 and was reactivated in 1952. It consists of a regular cadre and volunteers serving an initial training period, followed by attendance at annual training camps. Forces are organized into marines, royal guards, a navy, a police force, and a newly created air wing. The naval squadron consists of several fast patrol boats policing territorial waters.

## 18 INTERNATIONAL COOPERATION

Tonga was admitted to the UN on 14 September 1999. It participates in ESCAP, FAO, ICAO, IDA, IFAD, IMF, ITU, UNCTAD, UNESCO, UPU, and WHO. Tonga is also a member of the Asian Development Bank, Commonwealth of Nations, G-77, IBRD, and South Pacific Forum. It has also applied for WTO membership. Tongan representatives have attended and taken a leading part at South Pacific conferences. Since 1965, Tonga has received aid under the Australian South Pacific Technical Assistance Program. Tonga has only one diplomatic mission overseas, in the United Kingdom.

## 19 ECONOMY

The economy is largely agricultural and still contains a substantial non-monetary sector. The principal cash crops are squash, fish, copra and coconut products, vanilla bean extract and bananas. One third to one half of export earnings come from the sale of squash to Japan, though the main source of foreign exchange is tourism. A proportion of food is imported and the economy remains dependent on external aid and remittances from expatriate Tongalese (including an estimated 46,000 in the United States) to offset its chronic trade deficit. As of 2002, it is estimated that there are more expatriates (over 102,000) than current citizens. Real GDP growth, which had peaked at 6.5% in fiscal year 1999/2000, fell to 0.5% in 2000/01, attributable to the global slowdown, and, in particular, its impact on tourism. The IMF reports net services for Tonga in 2000/01 as -\$8.7 million, down from positive balances of \$4.5 million and \$1.9 million in the previous two fiscal years.

In 2002, the year was ushered in by Tonga's worst cyclone since 1961, Cyclone Waka, which tore through the northern islands of Niuafu'ou and Vava'u on 30–31 December 2001, destroying an estimated 90% of the crops. About 350 homes were destroyed, with another 750 homes, 23 schools, and numerous hospitals, churches, and other structures seriously damaged. Water supply, electricity, and communications were also severely disrupted, with total damage estimated at \$50 million. Donor countries—principally New Zealand, Australia, French Polynesia, and the United States—responded with food aid and emergency assistance, as did several missions and charities. The government lifted import duties on construction materials. The net result was a slight uptick in real GDP growth in 2001/2002 to 1.5% despite the cyclone damage due to the stimulus given the construction industry as well as record high prices for squash and vanilla beans.

Tonga's overall balance of payments was also helped by a sharp increase in private transfers, which were an estimated \$65.2 million in 2001/02, up 21.6% from the year before, and up 62.2% from 1998/99. Inflation, however, increased from 10.4% from 6.9% because of expanded credit.

Another economic shock in 2002 was the discovery of the loss of most of the assets (about \$26.5 million) from the Tonga Trust Fund (TTF) through failed investments and, perhaps, simple fraud, while under management by American businessmen. The assets came primarily from selling Tongan passports to nervous residents of Hong Kong before its reversion to Chinese rule in 1997.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2000 Tonga's gross domestic product (GDP) was estimated at \$225 million. The per capita GDP was estimated at \$2,200. The annual growth rate of GDP was estimated at 5.3%. The average inflation rate in 2001 was 9.4%. 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 30% of GDP, industry 10%, and services 60%.

Worker remittances in 2001 totaled \$52.53 million. Foreign aid receipts amounted to about \$201 per capita and accounted for approximately 14% 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 total wage labor force in 1996, the last year reported, was 33,908. As of 1997, approximately 65% of the workforce engaged in agriculture. The unemployment rate that year was 13.3%.

The government has issued a labor code establishing a wage structure, a system of job classification, and provisions for workers' compensation. Holidays are prescribed by law. According to the constitution, it is not lawful to work, to play games, or to engage in trade on Sunday. Workers have the right, in theory, to form unions under the 1964 Trade Union Act, but as of 2002, none had been formed. Various government agencies and public enterprises offer vocational training.

Child labor is not used in the wage sector and is virtually nonexistent throughout the economy. The workweek is limited to 40 hours. There is no set minimum wage. Generally, labor laws are well enforced on the main island of Tongatapu but are more inconsistently enforced on the outer islands.

## 22 AGRICULTURE

About 69% of Tonga is agricultural land, including small amounts of permanent pasture. With increasing population pressure on the land, more land is being intensively cultivated and less is available for fallow. The use of fertilizers, high-protein strains of corn, and similar methods to improve the efficiency of land use has become increasingly necessary.

According to the constitution of 1875, all the land in the kingdom belongs to the crown and cannot be alienated. Much of it, however, consists of hereditary estates that were bestowed upon various chiefs, who lease the lands to farmers at a nominal annual rent. Since 1890, the crown has been responsible for the collection of rents and the granting of allotments.

On reaching the age of 16, every Tongan male taxpayer is entitled under the constitution to a tax allotment of one *api* (3.34 ha/8.25 acres). These allotments are hereditary, pass from generation to generation in accordance with the law of succession, and may not be sold. A tenant may be ejected for nonpayment of rent or for failing to comply with the planting regulations, under which every Tongan holder of a tax allotment is legally required to plant 200 coconut trees, which he must keep free from weeds. In recent years, however, population increases have made it impossible to guarantee the *api* to all those entitled to one.

Principal subsistence crops are yams, taro, sweet potatoes, and manioc. Estimated production in 1999 included coconuts, 25,000 tons; sweet potatoes, 5,000 tons; cassava, 28,000 tons; oranges, 3,000 tons; and bananas, 1,000 tons. Vanilla beans have become an important cash crop, especially on Vava'u. Agricultural products accounted for 67% of exports in 2001.

## 23 ANIMAL HUSBANDRY

Beef cattle are generally kept for grazing in coconut plantations to keep the undergrowth in check and to provide additional income. Every householder has several hogs, which generally are not sold but are used for feasts. Sheep were brought into Tonga in 1954 but did not thrive, and in 1956 the entire flock was slaughtered. Livestock in 2001 included 81,000 hogs, 12,500 goats, 11,400 horses, and 11,250 head of cattle.

## 24 FISHING

Fish are abundant in the coastal waters, but the fishing industry is relatively undeveloped, and the supply of fish is insufficient to meet local demand; thus, canned fish has been imported in recent years. Principal species caught are tuna and marlin. The fish catch was 3,531 tons in 2000; exports of fish products were valued at almost \$3.45 million that year.

## 25 FORESTRY

Forestland covers about 5.5% of Tonga's total area, mainly on Eua and Vava'u, but this diminishing resource has not been efficiently exploited, and much wood for construction must be imported. Roundwood production in 2000 was 2,000 cu m (70,600 cu ft). There is a government sawmill on Eua. Charcoal is manufactured from logs and coconut shells.

## 26 MINING

Tonga had few known mineral resources. A limited amount of crushed stone is produced at local quarries.

## 27 ENERGY AND POWER

All power is derived from thermal sources. Installed capacity in 2001 was about 7,000 kW; electricity production in 2000 totaled 30 million kWh. Consumption of electricity in 2000 was 27.9 million kWh. Oil has been discovered through seepage into water wells, but test wells have been unproductive.

## 28 INDUSTRY

Encouragement of new industries was the goal of Tonga's six five-year plans (1966–2006). Industries include the manufacture of concrete blocks, metal products, woolen knitwear, leather goods, furniture, soft drinks, soap, sports equipment, yachts, and paint. Ten-meter (33-foot) epoxy-veneer molded yachts are produced by Marine Tonga, an Tongan-German joint venture. At the government-backed Small Industry Centre in Nuku'alofa the more advanced products are made including refrigerators, jewelry, bicycles, toys, furniture, wheelbarrows, mini-excavators, and other consumer goods are assembled for use locally and in neighboring countries. A small but growing construction sector is developing in response to the inflow of relief monies following Cyclone Waka, which hit during the last two days of 2001, and the need for construction services for hospitals, schools, wharves, etc. Long-established industries are coconut processing, sawmilling, and local handicrafts. Nuku'alofa is the only commercial and urban center. Industry accounts for just 10% of GDP and manufacturing about 8%.

## 29 SCIENCE AND TECHNOLOGY

Hango Agricultural College, part of the Free Wesleyan Church Education System, offers diploma and certificate courses. Tonga Maritime Polytechnical Institute is located in Nuku'alofa.

## 30 DOMESTIC TRADE

Village stores carry a stock of flour, sugar, canned meats, textiles, hardware, soap, kerosene, tobacco, and matches; in the larger towns, these shops are managed by Tongans for European trading firms. Storekeepers act as agents for the Commodities Board and often extend credit to their customers until the end of the harvest. The board's produce division helps market bananas, melons, and pineapples. The development of cooperatives, which serve as savings-and-loan, produce-marketing, and handicraft-manufacturing organizations, has been actively pursued.

Usual banking hours are weekdays from 9:30 AM to 3:30 PM.

## 31 FOREIGN TRADE

Tonga suffers from chronic trade deficits. Vegetables, including squash, are Tonga's main export commodities (54%). Other exports include fish (15%), spices and vanilla (13%), and shellfish (3.8%).

In 1995 Tonga's imports were distributed among the following categories:

Consumer goods	13.8%
Food	25.0%
Fuels	12.3%
Industrial supplies	30.2%
Machinery	11.7%
Transportation	6.6%
Other	0.3%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
India	18	n.a.	n.a.
Japan	7	8	-1
United States	6	13	-7
Fiji	1	18	-17
Australia	1	10	-9
Samoa	1	n.a.	n.a.
United Kingdom	n.a.	2	n.a.
China (inc. Hong Kong)	n.a.	1	n.a.
New Zealand	n.a.	21	n.a.
Indonesia	n.a.	1	n.a.

### 32 BALANCE OF PAYMENTS

Since 1960, Tonga has had a growing trade deficit, offset by funds from the United Kingdom, New Zealand, Australia, and the Asian Development Bank (ADB).

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Tonga's exports was \$9.3 million while imports totaled \$70 million resulting in a trade deficit of \$60.7 million.

The International Monetary Fund (IMF) reports that in 2001 Tonga had exports of goods totaling \$6.66 billion and imports totaling \$63.7 billion. The services credit totaled \$17.1 million and debit \$27.2 billion. The following table summarizes Tonga's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-12,858</b>
Balance on goods	-57,031
Balance on services	-10,027
Balance on income	3,409
Current transfers	50,791
<b>Capital Account</b>	<b>9,152</b>
<b>Financial Account</b>	<b>1,001</b>
Direct investment abroad	...
Direct investment in Tonga	1,001
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	...
Other investment liabilities	...
<b>Net Errors and Omissions</b>	<b>4,349</b>
<b>Reserves and Related Items</b>	<b>-1,645</b>

### 33 BANKING AND SECURITIES

The Bank of Tonga was formed in 1971, with the government holding 40% of the shares and 20% each held by the Bank of Hawaii, the Bank of New Zealand, and the Bank of New South Wales. The overseas banks provided staff and supervision for the Bank of Tonga, which offers all commercial services and has assumed responsibility for government savings, traders' current accounts, and foreign exchange dealings. The Tongan Development Bank (TDB) was founded in 1977.

Tonga's fiscal policy has traditionally been cautious, with taxation and expenditure measures balancing in the recurrent budget and the development budget being financed mainly through grants and soft loans. Legislation to set up a central bank was passed in late 1988 and the National Reserve Bank came into existence the following year. The Ministry of Finance, the Board of Currency Commissioners, the Board of Coinage Commissioners, and the island's only commercial bank, the Bank of Tonga, had until then jointly performed central bank functions. A second commercial bank, MBF Bank, was launched in late 1993.

Legislation has been passed to enable Tonga to become an international banking center. The legislation permits up to four foreign banks to establish operations in the capital. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$20.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$67.0 million.

Tonga has no stock issues or securities trading.

### 34 INSURANCE

Blue Shield (Oceania) Insurance covers life, health, travel, workers' compensation, total permanent disability, accident, and local consultation services. There were at least seven other major insurers doing business in Tonga in 1999.

### 35 PUBLIC FINANCE

About half of all public revenues accrued from customs duties on imported goods; the remainder came mainly from export duties, port fees, income taxes, and stamp revenues. Principal items of expenditure were public health, medical services, education, and agriculture.

The US Central Intelligence Agency (CIA) estimates that in 1999/2000 Tonga's central government took in revenues of approximately \$39.9 million and had expenditures of \$52.4 million including capital expenditures of \$1.9 million. Overall, the government registered a deficit of approximately \$12.5 million. External debt totaled \$57.5 million.

### 36 TAXATION

Income tax is levied at progressive rates. Resident businesses pay 15% on profits up to \$100,000, and 30% thereafter. Non-resident businesses pay 37.5% on profits up to \$50,000 and 42.5% thereafter. All male Tongans 16 years of age and older, except the aged and infirm, pay an annual head tax, the receipts of which are used to finance free education and medical benefits. There is also a 5% sales tax.

### 37 CUSTOMS AND DUTIES

Tonga has a single-column tariff based on the Customs Cooperation Council Nomenclature with custom duties ranging from 30–65% of the CIF (cost, insurance, and freight). A 20% port and services tax is involved in the percentages. Tariffs are applied to most private sector imports, primarily for revenue purposes. Higher tariffs apply to cigarettes, alcoholic beverages, and petroleum, while public sector goods are exempt.

### 38 FOREIGN INVESTMENT

Although some non-Tongans have leased large plantations and residential and business sites, there is little private foreign investment. In 1997, foreign direct investment (FDI) was reported as \$3 million, and then for the next four years, 1998 to 2001, \$2 million a year. Government policy is that foreign investment is welcome. The statutory framework was laid out in the Industrial Development Incentives Act (IDI Act) of 1978 that provides for a tax holiday of five year extendable to 15 years, with additional tax holidays for expansions of an enterprise. Raw materials and semi-processed goods imported to manufacture an exported finished product are exempt from customs duties for two years, and all imports of capital goods, machineries and construction materials are assessed at 50% of port and service taxes. With a view to husbanding the country's foreign currency resources, there are restrictions, mostly on a pro rata basis, on the ability to move hard currency out of the country. Under current IMF-guided efforts at fiscal reform, this regime has been criticized for overbroad tax exemptions and is scheduled to be replaced with a new investment incentives law. Aside for the obvious problems of remoteness and lack of development, the main impediment to foreign investment is not the legal framework but its administration, which is reported to lack transparency and predictability. There are no free trade zones in Tonga, but in 1980 the government established the Small Business Centre near Nuku'alofa that serves as an improved industrial park for small enterprises.

The bulk of Tonga's foreign reserves are invested in Australia. In 2002, in an extraordinary financial scandal it was revealed that all by about \$2.2 million of the Tonga Trust Fund (TTF)—\$26.5 in all—had been lost.

### 39 ECONOMIC DEVELOPMENT

Tonga's seven five-year plans (1966–2000) emphasized development of the islands' economic infrastructure, increasing agricultural production by revitalizing the copra and banana

industries, improvements in telecommunications and transport, and expansion of tourism, industry, and exports. Through the nonprofit Commodities Board, the government has a trading monopoly in copra, bananas, melons, and other produce. In the 1990s, tourism revenues helped offset Tonga's large merchandise trade deficits, but substantial amounts of foreign aid continued to be required. From 1993–98, the economic growth was driven by a rise in exports of squash, increases in aid, and several large construction projects. Growth peaked in 1999/2000 at 6.5% but then plunged to only 0.5% in 2000/01 in the global recession that began the first quarter of 2001.

In 2001, with the appointment of a reform-minded finance minister, Tonga embarked on its seventh strategic development plan (SDP7) for 2001–2003. The overarching goal is improvement of the quality and standard of living for all Tongans. This is to be achieved through policy initiatives in five areas: 1) currency stabilization; 2) privatization; 3) updating and restructuring of the operations of state-owned enterprises (SOEs); 4) maintenance and improvements in the infrastructure; and 5) environmental protection. The economic and fiscal objectives were affirmed in early 2002 when the Cabinet approved the comprehensive Economic and Public Sector Reform Program (EPSRP). The three core objectives of the EPSRP are continuing support for public sector reform; promotion of the private sector as the engine of growth; and sustainable environmental management and equitable social development. The economic reforms are being pursued in conjunction with political reforms that aim at bringing more democracy to the government.

#### 40 SOCIAL DEVELOPMENT

Every family is provided by law with sufficient land to support itself. There is no social welfare department; the medical and education departments and the missions provide what welfare services are available. The only pension scheme is one for civil servants.

Polynesian cultural traditions have kept most women in subservient roles, and few have risen to positions of leadership. Inheritance laws discriminate against women, and women may not own land. Domestic violence is prevalent and dealt with according to tribal law and custom. The government created a National Council of Women despite opposition from women's nongovernmental organizations who feared that its independence would be limited.

Human rights are generally well respected in Tonga. However, political dissent is suppressed.

#### 41 HEALTH

Tongans receive free medical and dental treatment, but must pay for dentures. Non-Tongans are charged on a fixed scale. There is one government medical department hospital each in Tongatapu, Vava'u, Ha'apai, and Eau Island, with several dispensaries. There are 4 hospitals and 14 health care centers, with a total of 307 beds on the islands. In 1991, Tonga had 49 physicians. In 1997 there were 0.4 physicians, 3.2 nurses, 0.3 midwives, and 0.09 dentists per 1,000 people.

Tonga is free of malaria and most tropical diseases, but tuberculosis, filariasis, typhoid fever, dysentery, and various eye and skin diseases remain common health problems. Nevertheless, in comparison with many other Pacific islands, Tonga is a healthy country. Approximately 85% of children were vaccinated against measles in 1994. By 1969, a joint WHO-UNICEF project had considerably reduced the incidence of yaws. Other health projects deal with school sanitation, community water supplies, maternal and child health, and nursing education. The population has access to safe water and adequate sanitation.

There were no cases of polio, malaria, or neonatal tetanus in 1994. Tuberculosis was seen in only 23 cases in 1994. Twelve

AIDS cases were reported in 1999, with eight resulting in death from the disease.

Life expectancy as of 2002 was estimated at 68.6 years. In the same year, infant mortality was an estimated 13.7 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24 and 5.6 per 1,000 people. The fertility rate was three children per woman.

#### 42 HOUSING

Village houses usually have reed sides and a sloping roof thatched with sugarcane or coconut leaves; the posts are of ironwood, and braided cord takes the place of nails. More modern houses, especially in the towns, are built of wood, with roofs of corrugated iron. Unlike the village houses, they often contain more than one room and have verandas. In 1986, the housing stock totaled 15,091 units, of which 60% were European-style wooden houses, 17% were European houses of bricks or cement, 8% were Tongan houses of wood with iron roofs, 7% were Tongan thatch houses, and 4% had wooden walls with thatch roofs.

Rainwater is stored in concrete cisterns. With the help of WHO, underground fresh water has been tapped to improve the water supply. The success of the plan has led to the extension of fresh water supplies to villages on all major islands.

Tongan taxpayers are entitled to an allotment of land from the governments. Each urban Tongan taxpayer receives an annual rent subsidy in lieu of this land allotment.

#### 43 EDUCATION

The first schools in Tonga were started by the Wesleyan Mission in 1828, even before the conversion to Christianity of the Tongans, and practically all primary education was controlled by the Mission until 1882 when the government took over the educational system. In 1906, various missionary organizations again were allowed to establish schools.

A teacher-training college, established in 1944, provides a two-year course. A government scholarship program provides the opportunity for Tongan students to pursue higher education abroad. Primary education is compulsory for all Tongans. Adult literacy is estimated at higher than 90%. Mission schools, which follow a government syllabus, enroll about 8% of all primary pupils and 89% of students at post-primary level. No tuition is charged at government schools (except the high school), but small fees are charged at mission schools. In 1993 there were 16,792 pupils in Tonga's 115 primary schools, with 754 teachers. In the same year, secondary schools enrolled 16,750 students. The pupil-teacher ratio at the primary level was 21 to 1 in 1999. Elementary instruction is given in the Tongan language; English is also taught. Selected Tongan students prepare for the New Zealand school certificate examination.

#### 44 LIBRARIES AND MUSEUMS

Since 1971, the Ministry of Education has operated a joint library service with the University of the South Pacific. Its library in Nuku'alofa has 9,000 volumes covering agriculture, small business management, adult education, and an important collection of Pacificana. The Ministry of Education library has 12,500 volumes. The Tonga College Museum's collection includes artifacts of Tonga's history. Notable monuments include the great trilithon known as the *Ha'amanga* and some 45 *langis*, great rectangular platforms of recessed tiers of coral limestone blocks that were erected as the tombs of medieval kings.

#### 45 MEDIA

The government's radiotelegraph station at Nuku'alofa has substations at Neiafu (Vava'u), Pangai, Ha'afeva and Nomuka (in the Ha'apai group), 'Eua, and Niuatoputapu. There is also a direct overseas telegraph service linking Nuku'alofa with

Wellington, Suva, Apia, and Pago Pago. An internal radiotelephone service connects Nuku'alofa, 'Eua, Nomuka, Ha'afeva, and Vava'u, and a direct overseas radiotelephone service links Nuku'alofa to other Pacific island capitals. As of 1996, there were an estimated 8,000 mainline telephones in use and 302 cellular phones.

The Tonga Broadcasting Commission's Radio Tonga was established in 1961. It has two medium-wave transmitters of 10 kw each, and broadcasts about 75 hours a week in Tongan, English, Fijian, and Samoan; commercial advertising is accepted. As of 2001, there were four radio stations and three television stations. In 1997 Tonga had 600 radios and 18 television sets in use per 1,000 population. In 2000, there were two Internet service providers serving 1,000 subscribers.

The government publishes a weekly newspaper, the *Tonga Chronicle*, which has an average circulation (in 2002) of 7,000 copies in Tongan and English. There are also church newspapers issued by missions and a few private publications printed at regular intervals.

The constitution provides for free speech and a free press, although occasional infringements of press freedoms do occur. A 1999 US report on human right criticized the government for stifling freedoms of speech and the press. In non-government publications, opposition opinion appears regularly, usually without interference, but journalists were being targeted for prosecution in civil lawsuits by the minister of police.

#### 46 ORGANIZATIONS

Every Tongan village has a community house where ceremonial cloth (tapa) is made by groups of women. Extension of consumer cooperatives has been actively encouraged by the government. The Tongan Women's Progressive Association, formed in 1956, conducts programs for the betterment of village conditions and holds classes in a variety of subjects. The Red Cross is active in the country.

National youth organizations are typically affiliated with religious or educational institutions, including the Catholic Youth Association, Free Church of Tonga Youth Associations, Free Wesleyan Church Youth Association, Tonga Ex-Commonwealth Youth Programme Diplomats Association, and Tupou Farmers. Scouting and YMCA/YWCA programs are also available. Meetings of Christian Endeavor societies and Bible classes are well attended by all ages.

#### 47 TOURISM, TRAVEL, AND RECREATION

Popular tourist sites are the royal palace and terraced tombs in Nuku'alofa. Most visitors enjoy a traditional evening feast of suckling pig, crayfish, chicken, and assorted accompaniments. Fishing, swimming, and sailing are popular, and rugby is a favorite spectator sport.

The minister of police grants prior-arrival visitors' permits up to a maximum of six months. Permits are not required from persons in direct transit, holders of Tongan passports, or foreign

government officials traveling on official business. Vaccination against yellow fever is required.

The tourist industry is a small but growing source of foreign exchange revenues. In 2000 there were 34,694 tourist arrivals, with 46% of travelers coming from Australia and New Zealand. Tourism receipts totaled \$7 million.

In 2001 the US State Department estimated the cost of staying in Nuku'alofa at \$94 per day.

#### 48 FAMOUS TONGANS

King George Tupou I (Taufa'ahu Tupou, 1797–1893) ruled for 48 years; during his reign, Tonga became a Christian nation, abolished serfdom, and acquired a constitution. His prime minister, Shirley Waldemar Baker (1831–1903), was a Wesleyan clergyman who, after being deposed in 1890, became an Episcopal minister and then returned to Tonga. The most famous Tongan of this century was Queen Salote Tupou (1900–1965), whose rule began in 1918. Her dynasty, the Tupou, is the third branch of the royal family and traces its descent back to Ahoaitu, the first Tu'i Tonga of whom there is record. Queen Salote's son, King Taufu'ahau Tupou IV (b.1918), succeeded to the throne in 1965 and was formally crowned in 1967.

#### 49 DEPENDENCIES

Tonga has no territories or colonies.

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# TURKEY

Republic of Turkey  
*Türkiye Cumhuriyeti*

**CAPITAL:** Ankara

**FLAG:** The national flag consists of a white crescent (open toward the fly) and a white star on a red field.

**ANTHEM:** *Istiklâl Marşı (March of Independence)*.

**MONETARY UNIT:** The Turkish lira (TL) is a paper currency of 100 kuruş. There are coins of 1, 5, 10, 20, 25, 50, and 100 liras, and notes of 5,000, 10,000, 20,000, 50,000, 100,000, 250,000, and 500,000 liras. TL1 = \$0.000000626 (or \$1 = TL1,597,000.00) as of May 2003.

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

**HOLIDAYS:** New Year's Day, 1 January; National Sovereignty and Children's Day, 23 April; Spring Day, 1 May; Youth and Sports Day, 19 May; Victory Day, 30 August; Independence Day (Anniversary of the Republic), 29 October. Movable religious holidays include Şeker Bayramı (three days) and Kurban Bayramı (four days).

**TIME:** 3 PM = noon GMT.

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

The Republic of Turkey consists of Asia Minor, or Anatolia (Anadolu); the small area of eastern Thrace (Trakya), or Turkey in Europe; and a few offshore islands in the Aegean Sea, with a total area of 780,580 sq km (301,384 sq mi), extending about 1,600 km (994 mi) SE–NW and 650 km (404 mi) NE–SW. Comparatively, the area occupied by Turkey is slightly larger than the state of Texas. Of the overall area, 97% is in Asia, and 3% in Europe. Turkey lies athwart the important Black Sea straits system—the Dardanelles, the Sea of Marmara, and the Bosphorus. It is bordered on the N by the Black Sea, on the NE by Georgia and Armenia, on the E by Iran, on the SE by Iraq, on the S by Syria and the Mediterranean Sea, on the W by the Aegean Sea, and on the NW by Greece and Bulgaria, with a total boundary of 2,648 km (1,645 mi) and a coastline of 7,200 km (4,474 mi). Turkey's capital city, Ankara, is located in the northwest central part of the country.

## <sup>2</sup>TOPOGRAPHY

Other than the low, rolling hills of Turkish Thrace, the fertile river valleys that open to the Aegean Sea, the warm plains of Antalya and Adana on the Mediterranean, and the narrow littoral along the Black Sea, the country is wrinkled by rugged mountain ranges that surround and intersect the high, semiarid Anatolian plateau. Average elevations range from 600 m (2,000 ft) above sea level in the west to over 1,800 m (6,000 ft) amid the wild eastern highlands. The highest point is Mount Ararat (Büyük Agri Dagi, 5,166 m/16,949 ft), which rises just within Turkey at the intersection of the Turkish, Armenian, and Iranian frontiers. There are over 100 peaks with elevations of 3,000 m (10,000 ft) or more. Other than the Tigris and Euphrates, which have their sources in eastern Anatolia, rivers are relatively small. Because the watersheds of these streams are semibarren slopes, the seasonal variations in flow are very great. The largest lake is Lake Van (3,675 sq km/1,419 sq mi); the other major lake is Lake Tuz, whose water has a salinity level so high that it serves as a

commercial source of salt. Turkey's 7,200 km (5,474 mi) of coastline provide few good natural harbors.

Most of Turkey lies within an earthquake zone, and recurrent tremors are recorded. On 29–30 March 1970, more than 1,000 earthquakes were felt in the Gediz region of western Turkey, killing 1,086 persons. The record destructive earthquake, however, was that of 29 December 1939—near Erzincan—which killed 30,000 persons.

## <sup>3</sup>CLIMATE

Turkey's southern coast enjoys a Mediterranean climate, and the Aegean coastal climate as far north as Izmir is much the same. The mean temperature range in these regions is 17–20°C (63–68°F), and the annual rainfall ranges from 58 to 130 cm (23 to 51 in). The Black Sea coast is relatively mild (14 to 16°C/57 to 60°F) and very moist, with 71 to 249 cm (28 to 87 in) of rainfall. The central Anatolian plateau is noted for its hot, dry summers and cold winters: the average annual temperature is 8–12°C (46–54°F), and annual precipitation is 30–75 cm (12–30 in). With the exception of some warmer pockets in the valleys, the eastern third of Turkey is colder (4–9°C/39–48°F), and rainfall averages 41–51 cm (16–20 in). The little precipitation there is on the central plateau tends to be concentrated during the late fall and winter months.

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

A wide variation of flora is found, from semitropical to temperate, and desert to alpine. In the mountains of southern, southwestern, and northern Turkey there are extensive coniferous stands of commercial importance and some deciduous forest. Licorice, valonia oaks, and wild olive trees grow in the southwest. Principal varieties of wild animals are the fallow deer, red deer, roe deer, eastern mouflon, wild boar, hare, Turkish leopard, brown bear, red fox, gazelle, beech marten, pine marten, wildcat, lynx, otter, and badger. There is a large variety of birds, including the snow partridge, quail, great bustard, little bustard, widgeon, woodcock, snipe, and a variety of geese, ducks, pigeons,



and rails. About 30 species of snakes are indigenous. Bees and silkworms are grown commercially.

## 5 ENVIRONMENT

Environmental responsibilities are vested in the Under Secretariat for Environment and in the Ministry of Energy and Natural Resources. Among Turkey's principal environmental problems is air pollution in Ankara and other cities. The smog in Ankara grew worse after 1979, when the government banned oil heating systems in new buildings in order to reduce costly oil imports; the resultant increased burning of Turkish lignite, which is high in sulfur content, greatly increased the levels of sulfur dioxide and dust in the air. In 1983, the government reversed itself and banned the conversion of heating systems to coal. At the same time, it introduced an antipollution program designed to reduce air pollution levels by more than 50% within a year. In addition to heating restrictions, the plan called for strict traffic controls, the closing of the worst industrial polluters, a prohibition on the import of high-sulfur fuel oil, special emergency hospital wards for smog victims, and the building of green areas and parks in and around cities. In 1992, Turkey had the world's highest level of industrial carbon dioxide emission, which totaled 145.5 million metric tons, a per capita level of 2.49 metric tons. In 1996, the total rose to 178.3 million metric tons.

A \$220-million project to clean up the polluted water in the Golden Horn, an inlet of the Bosphorus forming a harbor in Istanbul, was implemented in the 1980s. The nation's rivers are polluted with industrial chemicals. Among them, mercury has created a serious threat to the nation's water supply. As of 2000, only 81% of urban dwellers and 86% of rural residents have access to safe drinking water. Soil erosion affects both coastal and internal areas. The combination of water and wind eliminates 500 metric tons of soil each year.

In 2001, 15 of Turkey's mammal species and 14 of its bird species were endangered. About 1,600 types of plants were threatened with extinction. Endangered species include the Anatolian leopard, Mediterranean monk seal, bald ibis, slender-billed curlew, Atlantic sturgeon, and hawksbill and green sea turtles.

## 6 POPULATION

The population of Turkey in 2003 was estimated by the United Nations at 71,325,000, which placed it as number 16 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 30% of the population under 15 years of age. There were 102 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.42%, with the projected population for the year 2015 at 82,150,000. The population density in 2002 was 87 per sq km (225 per sq mi).

It was estimated by the Population Reference Bureau that 75% of the population lived in urban areas in 2001, up from 44% in 1980. Istanbul (formerly Constantinople), the largest city, had a 2002 metropolitan population of 9,413,000. The largest metropolitan areas after Istanbul were Ankara, the capital city, with a 2002 metropolitan population of 3,131,000; Izmir (formerly Smyrna), 2,399,000; Adana, 1,289,000; Bursa, 1,299,000; and Gaziantep, 926,000. According to the United Nations, the urban population growth rate for 2000–2005 was 2.6%.

## 7 MIGRATION

Much Turkish emigration has consisted of workers under contract for employment in EC countries. Germany alone had 1,779,600 Turks at the end of 1991. There are also large numbers of Turks in prosperous Muslim countries such as Sa'udi Arabia, the Gulf states, and Libya. In 1994, there were 14,000 Turkish

Kurds in northern Iraq. The military conflict in southeastern Turkey has internally displaced hundreds of thousands of persons; however, this problem has not been officially recognized by Turkey.

After the 1991 Gulf War, 500,000 Iraqi Kurds fled to Turkey. Most of these refugees have since repatriated or resettled in third countries. In 1992, 20,000 Bosnians came to Turkey, though all have left except for 4,000 as of March 1997. In 1999, nearly 18,000 Kosovar refugees sought asylum in Turkey, including 8,000 people evacuated from Macedonia; nearly all have since voluntarily repatriated. In addition to these mass arrivals, there are individual asylum seekers from Iran and Iraq. Non-European refugees are granted only temporary protection in Turkey, so nearly all must be resettled. In 1998, 1,629 refugees were resettled in the United States, Canada, Australia, and the Nordic countries; approximately the same number was expected for 1999. The net migration rate was zero in 1999.

## 8 ETHNIC GROUPS

About 80% of the population is Turkish. The major ethnic minority (by mother tongue), the Kurds, is estimated at 20%. Arabs, Turkmen, Circassians, Greeks, and others do account for a small percentage of the population. Hundreds of thousands of Armenians were either killed or forced to flee during and immediately following World War I; bitterness between Armenians and Turks continues to this day, and during the late 1970s and early 1980s, Armenian terrorists took the lives of more than two dozen Turkish diplomats. The Greek component in Turkey was reduced as a result of the 1919–22 hostilities with Greece, the 1923 Treaty of Lausanne (which provided for an exchange of population with Greece), and the post-World War II Cyprus controversy. The Kurds, some of whom were forcibly dispersed after an uprising in 1935, still tend to be concentrated in the southeastern provinces. The Arabs live in the south along the Syrian and Iraqi frontiers, and the Greeks, Armenians, and Jews live in Istanbul and, to a lesser extent, in Izmir. Separatist Kurdish groups are outlawed, and there is a heavy military presence in the nine provinces where a state of emergency has been in effect since 1987.

## 9 LANGUAGES

Turkish, which belongs to the Ural-Altai group, is the official language. In addition to the Roman alphabet, modern Turkish uses the letters *ç*, *ğ*, *i* (undotted), *ö*, *ş*, and *ü*, but no *q*, *w*, or *x*. With only minor exceptions, words are spelled phonetically. The language is agglutinative. A 1928 language reform substituted the Roman alphabet for the Arabic script, which had been used by the Turks since their conversion to Islam. During the 1930s there was a state-sponsored effort to rid the language of Arabic and Persian words and grammatical constructions. Turkish grammatical rules are now applied for all words, regardless of origin, though many Persian and Arabic expressions persist. Traditionally, there was a great difference between vernacular Turkish and written Ottoman Turkish, the latter being heavily influenced by Arabic and Persian and almost unintelligible to the mass of Turks. This difference has been almost obliterated, though some regional differences in dialect, particularly in the villages, still make effective communication difficult.

Kurdish and Arabic are also spoken. Kurdish is a language of the Iranian group and is written in Arabic script in Turkey. Two of the three major dialects are spoken in Turkey.

## 10 RELIGIONS

Religious freedom is provided for by the constitution. About 98% of the population is Muslim. Though there is no official state religion, the state maintains urban mosques and other Muslim religious properties, licenses Muslim religious leaders, and provides Muslim religious education in the public schools.



LOCATION: 25°40' to 44°48' E; 35°51' to 42°6' N. BOUNDARY LENGTHS: Armenia, 268 kilometers (167 miles); Azerbaijan, 9 kilometers (5 miles); Georgia, 252 kilometers (157 miles); Iran, 499 kilometers (311 miles); Iraq, 331 kilometers (206 miles); Syria, 822 kilometers (500 miles); Greece, 206 kilometers (128 miles); Bulgaria, 240 kilometers (150 miles); total coastline, 7,200 kilometers (4,482 miles). TERRITORIAL SEA LIMIT: 6 miles, Aegean Sea; 12 miles, Mediterranean and Black Seas.

Proselytizing by either Muslim or non-Muslim is proscribed by law. Laws against the use of religion for political purposes are rigorously enforced. The vast majority of Turkish Muslims are Sunni, but there is a substantial Shi'a minority. Although at times suppressed by law, secret dervish orders have remained active in some areas. In 1999, religious minorities included Christians and Jews, accounting for 0.2% of the population. The Greek Orthodox patriarch at Istanbul is considered first among equals of the seven patriarchs in the Eastern Orthodox churches. Turkey was a haven for Jewish refugees from Spain and Portugal in the late 15th and 16th centuries, and Jews have lived there in relative peace until recent years.

## 11 TRANSPORTATION

Turkey's size and difficult terrain, together with limited economic resources, have proved great obstacles to the construction of transportation facilities. When the republic was founded in 1923 there were about 4,000 km (2,500 mi) of railway track and 7,400 km (4,600 mi) of motor roads in Anatolia and Thrace, all in disrepair. By 2001, 8,607 km (5,348 mi) of track connected most of the important points in the country with Ankara, Istanbul, and the Black Sea and Mediterranean ports. The railways are owned and operated by the Turkish State Railways, a public corporation.

Animal transportation in most of the country has gradually given way to trucks and buses that use roads provided by

extensive construction programs since World War II. In October 1973, the Bosphorus Bridge in Istanbul was opened, facilitating the crossing of the Straits of the Bosphorus by motorists; this six-lane steel suspension bridge had a main span of 1,074 m (3,524 ft). As of 2002, there were 382,397 km (237,621 mi) of roadways, of which 106,976 km (66,475 mi) were paved, including 1,726 km (1,073 mi) of expressways.

The Turkish merchant fleet in 2002 consisted of 531 vessels of all types, totaling 5,913,171 GRT (9,108,819 DWT). The leading ports were Mersin (Icel), Istanbul, Izmir, Iskenderun, and Izmit (Kocaeli).

Turkey had 120 airports in 2001, of which 86 had paved runways. Three international airports—Atatürk (Istanbul), Adnan Menderes (Izmir) and Esenboga (Ankara)—are served by some 20 international air carriers. A new international passenger terminal in Istanbul is one of the largest in Europe able to handle 30 simultaneous gate arrivals and departures. The new Sabiha Gokcen International Airport on Istanbul's Asian side can handle 3.5 million passengers with a potential capacity for 10 million. Other international airports include Antalya, Dalaman, and Adnan Menderes at Izmir. With minor exceptions, domestic air transportation is the monopoly of the semipublic Turkish Airways Corp. (Türk Hava Yollari), which connects most major centers within the country on a regular schedule and operates some international flights. In 2001, scheduled airlines moved 339 million freight ton-km (211 million freight ton-mi); 9,905,400

passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

In ancient times, Turkey was known as Asia Minor or Anatolia. Among the many inhabitants were the Hittites (c.1800–c.1200 BC), the first people to use iron; the Greeks, who, according to legend, destroyed Troy (or Ilium) about 1200 BC and who colonized the Aegean coast from about 1000 BC on; the Phrygians (c.1200–c.600 BC); the Lydians (c.700–546 BC), the first people to mint coins; the Persians (546–333 BC); and the Romans, beginning in the 2d century BC. Roman Emperor Constantine I (the Great) changed the name of the city of Byzantium to Constantinople (now Istanbul) and made it his capital in AD 330; a division between the Western and Eastern Roman Empires, with their respective capitals at Rome and Constantinople, became official in 395. Constantinople, seat of the Byzantine Empire, became the center of Eastern Orthodox Christianity, which officially separated from Roman Catholicism in 1054, when the pope and the patriarch of Constantinople excommunicated each other.

The Turks are a Ural-Altaic people who emerged from the plains between the Ural Mountains in Europe and the Altay Mountains in Asia. The forerunners of the inhabitants of present-day Turkey, known as the Seljuk Turks (named after the Turkish conqueror Seljuk, fl.10th century), defeated the Byzantines in the battle of Malazgirt (1071) and established themselves in Anatolia. They attained a highly developed Muslim culture in their great capital at Konya, in central Turkey. The Turkish conquest of Syria, including Palestine, led to the Crusades (1096–1270), a series of intermittent and inconclusive wars. Various Latin (Roman Catholic) and Greek (Eastern Orthodox) states were formed in parts of the Turkish Empire, but none lasted. The sack of the Christian city of Constantinople by Crusaders in 1204, followed by the establishment of the Latin Empire there (1204–61), shocked Europe and tended to discredit the Crusading movement.

Seljuk power was shattered when the Mongols, another Ural-Altaic people, swept across Asia Minor in 1243. As the Mongols withdrew, Turkish power revived and expanded under the Ottoman Turks, a group of frontier warriors whose first chief was Osman I (called Ottoman in the West, r.1300?–1326). In 1453, the Ottomans under Mehmet II (the Conqueror) occupied Constantinople and made it their capital. In 1516, they conquered Syria; in 1517, Egypt. In 1529, they were at the gates of Vienna, at which point the European expansion of Turkish power was stopped. The Turkish fleet was decisively defeated in a battle near Lepanto (now Navpaktos) in Greece in 1571. At its peak, generally identified with the reign of Sultan Süleyman I (the Magnificent, r.1520–66), the Ottoman Empire encompassed an estimated 28 million inhabitants of Asia Minor, much of the Arabian Peninsula, North Africa as far west as modern Algeria, the islands of the eastern Mediterranean, the Balkans, the Caucasus, and the Crimea. During the 17th, 18th, and 19th centuries, as a result of the rise of nationalism and encroachment by the European powers, it gradually shrank in size, the independence of the remainder being maintained only by shrewd balance-of-power diplomacy.

The process of modernization began with the Imperial Rescript of 1839, promulgated by Sultan Abdul Mejid (r.1839–61), and by a body of reforms known as the Tanzimat, which to some extent curbed the absolute powers of the sultan-caliph. (The Turkish sultans had added the title “caliph” following the conquest of Egypt in 1517.) The Illustrious Rescript of 1856 was largely dictated by Britain, France, and Austria as part of the negotiations leading to the settlement of the Crimean War (1853–56), a clash between the Russian and Ottoman Empires; it ensured equal rights for non-Muslims, provided for prison reform

and the codification of Turkish law, and opened Turkey to European skills and capital. A constitution was introduced in 1876 by Sultan Abdul Hamid II (r.1876–1909) but was suspended in the following year. Thereafter, an absolute monarchy prevailed until the Young Turk revolution of 1908, at which time the constitution of 1876 was reinstated. In 1913, leaders of the Committee for Union and Progress (the organizational vehicle of the Young Turks) took effective control of the government under Sultan Mehmet V (r.1909–18). The principal leaders were Talat and Enver Pasha, who, at the outbreak of World War I, threw what little remained of Ottoman strength behind the Central Powers, which had sided with Turkey in its fruitless attempt to retain its last major European possessions in the Balkan Wars of 1912–13. Although the Turks were unable to make any headway against British forces defending the Suez Canal, they did offer a heroic defense at Gallipoli (the Gelibolu Peninsula) and the Dardanelles, in a prolonged battle between Turkish and British-French forces that lasted from February 1915 to January 1916 and took the lives of about 100,000 soldiers on each side. In 1917, however, Turkish resistance collapsed, and the British pushed Turkey out of Syria, Palestine, Iraq, and Arabia. An armistice was concluded on 30 October 1918, and Enver Pasha and his colleagues fled the country.

On the basis of a series of earlier Allied agreements, the Ottoman Empire was to be stripped of all non-Turkish areas, and much of what remained—Asia Minor—was to be divided among the United Kingdom, France, Greece, and Italy. A substantial portion was actually occupied. In 1919, with Allied assistance, the Greeks invaded Anatolia through Izmir, but a Turkish nationalist resistance movement under the leadership of Mustafa Kemal (later called Atatürk), who had commanded a division at Gallipoli, finally defeated them in 1922. The sultan, being virtually captive in Istanbul, was disgraced in Turkish eyes by his identification with Allied policy. After much maneuvering, a rival nationalist government under Mustafa Kemal was established in Ankara and gained national and international recognition. On 1 November 1922, the sultanate was abolished by Mustafa Kemal's provisional government. The following year, the Ankara government negotiated the Treaty of Lausanne with the Allies, which recognized Turkish sovereignty over Asia Minor and a small area in Thrace. There was a massive exchange of Greek and Turkish populations. On 29 October 1923, a republic was proclaimed, with Ankara as its capital, and on 3 March 1924, the caliphate was abolished and all members of the dynasty banished. Before and during the war, Armenians sought to establish their independence and were brutally repressed by the Turks. Over a million people are said to have died being driven from their homes; many survived in exile.

During the next few years, a series of social, legal, and political reforms were accomplished that, taken collectively, became known as the Atatürk Reforms. They included the substitution of secular law for religious law, the writing of a republican constitution based on popular sovereignty, suppression of religious education in Turkish schools, introduction of a Roman alphabet to replace the Arabic script, and the legal upgrading of the position of women. With minor exceptions, political power resided in a single party, the Republican People's Party, and to a very substantial extent in Mustafa Kemal personally until his death in 1938. His chief of staff, Ismet İnönü (Pasha), became president and established a two-party system of government with the formation of the opposition Democrat Party (DP) in 1946.

Although pro-Allied, Turkey remained neutral during most of World War II, but early in 1945 it declared war on the Axis and became a charter member of the UN. In 1947, the Truman Doctrine pledged US support to Turkey in the face of mounting Soviet pressure. This move was followed by large-scale military and economic assistance from the US. Turkey thus became firmly

committed to the Western alliances—NATO and the Central Treaty Organization, or CENTO (Baghdad Pact).

The DP came to power in 1950. Under Prime Minister Adnan Menderes, the government stressed rapid industrialization and economic expansion at the cost of individual liberties. Restrictive press laws were passed in 1954 and 1956, and by 1960 the Menderes government had curtailed judicial independence, university autonomy, and the rights of opposition parties. On 27 May 1960, after student demonstrations (joined by War College cadets and some army officers) were harshly suppressed, Prime Minister Menderes, President Celâl Bayar, and other government leaders were arrested by a newly formed Committee of National Unity. Gen. Cemal Gürsel became acting president and prime minister. Menderes was found guilty of violating the constitution and was hanged in 1961. A new constitution was popularly ratified in 1961, and elections were held in October. Gen. Gürsel was elected president by the New Grand National Assembly, and İnönü became prime minister of a coalition government.

The opposition Justice Party (JP) won 52.3% of the vote in the 1965 elections and formed a new government under Süleyman Demirel. Four years later, the JP was returned to power, and Prime Minister Demirel began a new four-year term. But Turkey's four top military commanders forced the resignation of Demirel's government in 1971 and called for a "strong and credible government" that would restore economic and political stability and suppress student disorders, which had steadily grown more frequent and more violent since 1968. Martial law had been imposed from June to September 1970, and a new "above party" government under Nihat Erim reimposed martial law in 11 provinces (including Ankara and Istanbul) from 1971 to 1973.

Political stability proved no easier to achieve: a succession of weak coalition governments, headed alternately by Demirel and Republican leader Bülent Ecevit, held office between 1973 and 1980. Ecevit's government was in power during the Greco-Turkish war on Cyprus in July–August 1974. Relations with Greece, strained by a dispute over mineral rights on the Aegean continental shelf, reached the breaking point on 15 July, when Cypriot President Makarios was overthrown in a Greek-led military coup. Fearing the island would be united with Greece, Turkish forces invaded on 20 July. A UN cease-fire came into effect two days later, but after peace talks at Geneva broke down, Turkish troops consolidated their hold over the northern third of the island by 16 August. As the result of this action, the United States embargoed shipments of arms to Turkey until 1978; as of 1994, an estimated 25,000 or more Turkish troops remained on Cyprus to support the Turkish Republic of Northern Cyprus which only Turkey recognizes. In 1997, Turkish and Greek representative met with a UN mediator in an attempt to resolve the issue. No results were reported.

During the late 1970s, escalating acts of violence by political groups of the extreme left and right, coupled with economic decline, threatened the stability of Turkey's fragile democracy. By April 1980, 47,000 people had been arrested, and martial law had spread to 20 of Turkey's 67 provinces; at midyear, more than 5,000 persons had been killed (including former Prime Minister Nihat Erim), and the factional strife was claiming an average of 20 victims each day. With the legislature deadlocked, the military intervened in the political process for the third time in 20 years. A five-man military National Security Council (NSC), headed by Gen. Kenan Evren, took power in a bloodless coup on 12 September 1980. The NSC suspended the 1961 constitution, banned all political parties and activities, and arrested thousands of suspected terrorists. With the entire country under martial law, factional violence was drastically reduced. By April 1982, 40,000 alleged "political extremists" had been arrested; 23,000 had been tried and convicted in martial law courts, some 6,000 of them for "ideological offenses." Under an NSC edict forbidding Turkey's former political leaders from speaking out on political matters,

former Prime Minister Ecevit was twice arrested and imprisoned during 1981–82. In protest against the treatment of Ecevit, the EEC froze payment of \$650 million in loans and grants previously pledged to Turkey.

In a national referendum on 7 November 1982, Turkish voters overwhelmingly approved a new constitution (prepared by a constituent assembly chosen by the NSC) under which Gen. Evren became president of the republic for a seven-year term; campaigning against ratification had been illegal under martial law. Parliamentary elections were held in November 1983, although martial law remained in effect. Following the elections, Turgut Özal, leader of the victorious Motherland Party, was installed as prime minister. Martial law was lifted in most provinces over the next two years, but emergency rule remained in effect; legislation was passed to broaden police powers, freedom of expression remained limited, and trials of alleged extremists continued. Human-rights groups complained of torture, suspicious deaths, overcrowding, and substandard conditions in Turkish jails; the government denied any improprieties. Özal's Motherland Party retained its parliamentary majority in November 1987 elections, and he was reelected for a second five-year term. In 1989, Özal was elected president. His Motherland Party continued in power but with declining popularity as shown in 1989 municipal elections. Özal's ambition was to tie Turkey closely to Europe but, despite improvements in Turkey's human rights record, its application for full membership in the European Union was deferred indefinitely. Özal also sought to give Turkey a leading role with the Turkic republics of former Soviet Central Asia. He continued Turkey's long-standing policy of quiet contacts with Israel while seeking better ties with the Arab states. During the Gulf War, he joined the embargo against Iraq, closed Iraq's oil pipelines, provided facilities for allied air raids and later supported protective measures for Iraqi Kurds. In compensation, Turkey received increased aid worth \$300 million.

In October 1991 elections, the Motherland Party lost its parliamentary majority to the True Path and Social Democratic Party in coalition. True Path leader Demirel was named prime minister. He succeeded to the presidency in May 1993 following the death of Özal. Tansu Ciller, True Path chairperson, became Turkey's first female prime minister in July. In 1994, Ciller faced three major tasks: dealing with the problems of high inflation (about 70%) and unemployment as she continued Özal's free market policies of export-led growth (7–8%), reducing government regulations and privatization; pacifying the rebellious Kurdish areas of eastern Turkey where large numbers of troops have been tied down in a conflict that has taken thousands of lives and millions in treasure; and responding to the rising challenge to Turkey's secular nationalism from politically militant Islamic groups.

These problems continued, and in some cases escalated, and the Ciller government also faced scandals and a weakened resolve due to its fragile coalition majority.

Problems with Kurdish separatists, long-standing disagreements with Greece, and an unstable political environment plagued Turkey throughout 1995 and 1996.

The battle between the Turkish government and members of the Kurdistan Workers Party (PKK) that began in 1984 continued in late 1994 and the first half of 1995. The PKK sought the establishment of a separate Kurdish state. In fighting from 1984 until February 1995, more than 14,000 people had died. The battle spilled beyond Turkey's borders on 20 March 1995, as 35,000 troops backed by tanks and jets pursued rebels into northern Iraq. In the biggest military operation in the history of the Turkish republic, the troops hunted for suspected PKK bases. The PKK maintained the area was home only to Iraqi Kurds, not the PKK. Turkey said it was targeting 2,400 guerrillas who had been mounting cross-border raids and that it would not pull out until a buffer zone or other plan was set up to keep the PKK from

moving back into the area. Western leaders condemned the incursion, and the eventual Turkish pullout was seen as a reaction to that negative pressure. Meanwhile, Turkey promised reforms to improve the lives of the 11 million Kurds living there. It said it would lift restrictions on broadcasts in Kurdish and allow Kurds to establish their own schools after the PKK was crushed. The battle would continue until 27 April, when Turkey declared that its mission to wipe out PKK base camps, arms depots, and supply routes in northern Iraq was a success. It said it would go back into Iraq if it again became necessary to strike at the rebels. Turkey said its next task would be to secure the border.

At the same time territorial conflicts with Greece erupted. On 1 June 1995, the Greek parliament ratified the international Law of the Sea treaty, drawing protests from Turkish leaders who saw the move as an attempt by Greece to extend its territorial waters. Almost eight weeks later the two nations narrowly avoided confrontation over a cluster of uninhabited islands in the Aegean Sea. Though on 31 January Greek prime minister Constantine Simitis withdrew forces from the area, tensions remained high through April, when a Greek coast guard patrol boat fired on Turkish fishermen suspected of smuggling illegal migrants to the Greek islet of Strongili. Meanwhile in May tensions between Greek and Turkish soldiers on Cyprus escalated, culminating in the fatal shooting of a Greek soldier early in June.

The Kurdish and Greek issues were complicated by political instability within Turkey through the spring of 1996. On 20 September 1995, Prime Minister Tansu Ciller resigned when her coalition fell apart over budgetary matters. When Ciller lost a vote of confidence on 15 October, her own party, the True Path, called for national elections on 24 December. Turkey's president Suleyman Demirel asked Ciller to form a new interim government, a coalition destroyed almost two months later by the triumph of the Islamic Welfare Party in the December elections. In an effort to block Islamic fundamentalists from gaining power, Ciller made overtures to her longtime rivals in the conservative Motherland Party. When negotiations failed, President Demirel in early January invited Islamic Welfare Party leader Necmettin Erbakan to form a government. This effort was unsuccessful, as was the early February attempt by Motherland Party head Mesut Yilmuz. The stalemate ended early in March when Ciller and Yilmuz agreed on a government that left the Islamic Welfare Party out. The following month, in retaliation, Islamic representatives in parliament successfully moved to investigate allegations of corruption against Ciller. As a result of infighting, the center-right coalition fell apart in early June, allowing Erbakan to become modern Turkey's first conservative Islamic prime minister. The instability, as well as Erbakan's anti-West, antisecular slogans, caused Turkey's economy to lapse and slowed foreign investment significantly.

Beginning in early 1997, Turkey's military leaders began to speak openly of their displeasure with the Islamist turn the country had taken under Erbakan's government—even intimating that if the government did not return to secular policies instituted by Ataturk nearly a century earlier, it would overthrow the government militarily. Erbakan had angered the military, which considers itself the defenders of the country's secularism, by proposing mandatory Islamic education and by making political overtures to Libya and Iran. Pressure from the military increased in late spring and early summer, and Turkey's neighbors in Europe and allies in the United States also expressed concern over the direction the NATO member was taking. The crisis was resolved in July 1997, when the Welfare Party's coalition fell apart, and its leader, Erbakan, resigned his post. After the resignation, Mesut Yilmaz, leader of the Motherland Party, was asked by President Demirel to form a government. Erbakan, upon resigning, said he did so with the full intention of returning to office one day and predicted his ultraconservative welfare party

would win more than 21% in the next elections, then scheduled for 2000.

Ciller came under heavy scrutiny again in early 1997 in a renewed round of allegations concerning her financial affairs. Opponents in parliament and within her own party accused her and her husband of enriching themselves during her term as prime minister. The parliamentary investigations came as Ciller was defending herself against charges that her government and previous administrations condoned death squads. The scandal came to light in November 1996 after an automobile accident that killed a senior police official. Also in the car was a convicted drug smuggler wanted by Interpol and a high-ranking member of parliament.

By November 1998, Yilmaz's government fell victim to another corruption scandal and Ecevit returned as interim prime minister. Within two months of returning to power, Ecevit scored a major victory for his government through the capture of Kurdish terrorist leader Abdullah Ocalan in Nairobi, Kenya. Ocalan had taken refuge in the Greek embassy in Nairobi and was apprehended while on the way to the airport (and an African country willing to provide him with asylum). Ocalan's capture brought relations with Greece to a new low as Ecevit accused Greece of being a state sponsor of terrorism.

In the wake of the terrorist leader's arrest, Ecevit called for early elections to be held in April 1999. The balloting resulted in a plurality for Ecevit's DSP (Democratic Left Party) which captured 136 out of 550 seats (22.3% of the vote) in the parliament. The MHP came second with 129 (18.1%), the Virtue Party (successor to the outlawed Welfare Party) dropped to 111 seats (15.5%), while the Motherland Party received 86 seats (13.3%). Ecevit formed a coalition with MHP and Motherland thus strengthening his position with the secularist military and isolating the Islamists.

Ecevit continued to make progress in foreign affairs throughout 1999 and into 2000. Relations in Greece saw marked improvement following a major earthquake that killed 20,000 Turkish citizens in August 1999. Greece was among the first nations to send aid—an act of humanitarian assistance warmly received by the Turkish government and public. When Greece suffered a smaller earthquake the following month, Turkey returned the favor. A dialogue on cooperation between the two countries in areas of mutual interest subsequently resulted in accords in the areas of trade and the fight against terrorism. Many international observers placed emphasis on the warm personal relationship between Turkish foreign minister Ismail Cem and his Greek counterpart George Papandreou. Finally, at the December 2000 EU summit in Helsinki, the EU member-states placed Turkey's name on the list of candidates for entry. Although most observers ruled out Turkish membership for at least 10-15 years, the decision was a symbolic victory for Turkey as it symbolized the efforts of most Turks to identify with the West.

In October 2001, the Turkish parliament voted for 34 changes to the constitution, as a way of improving Turkey's chances of joining the EU. Among the reforms were the abolition of the death penalty except in times of war and for acts of terrorism, ending torture in prisons, and allowances for the use of the Kurdish language in broadcasting and education. However, in May 2002, parliament approved a law increasing government control over the media, including the Internet. At an EU summit held in Copenhagen in December 2002, Turkey was not included in a list of 10 countries to be included in an expanded EU. US president George W. Bush had pressed for early accession talks on Turkey, but EU members stated the country needed more time to demonstrate progress on improving human rights, the economy, and on reducing the influence of the military on Turkish politics. Talks on Turkey's application were deferred until December 2004. The situation on EU enlargement was made more difficult

for Turkey as Cyprus was included in the group of 15 prospective new members: the EU is hoping for the reunification of Cyprus prior to its accession, but will accept the Greek Cypriot government as a member if reunification is not achieved.

Ahmet Necdet Sezer was elected president on 5 May 2000. He was the first president in modern Turkish history to be neither an active politician nor a military commander. He is seen as a secularist. Early parliamentary elections were held on 3 November 2002, after eight ministers, including foreign minister Ismail Cem, resigned in July, protesting Prime Minister Ecevit's refusal to leave office despite a dire economic and political climate. Ecevit's health was poor, Turkey was in its most severe recession since World War II, the domestic political situation was volatile, and a US-led war with Iraq was looming, one that would depend upon Turkish cooperation. In the November elections, the newly formed Islamist-based Justice and Development Party (Adalet ve Kalkınma Partisi or AK) won a landslide victory, allowing it to rule without a coalition and amend the constitution by taking 363 of 550 seats in parliament. The AK pledged to adhere to the secular principles of the constitution. Abdullah Gül was named prime minister, largely because the party's leader, Recep Tayyip Erdoğan, was barred from the National Assembly due to a 1998 criminal conviction for inciting religious hatred, after he recited a religious poem deemed to be seditious. In February 2003, parliament amended the constitution, allowing Erdoğan to be eligible as a candidate in parliamentary by-elections in March, which would pave the way for him to become prime minister.

During 2002 and into 2003, the international community, led by the United States, placed pressure on Iraq to rid itself of weapons of mass destruction (WMD). On 8 November 2002, the UN Security Council voted unanimously to call on Iraq to disarm itself of chemical, biological, and nuclear weapons and weapons capabilities, to allow for the return of IAEA and UN weapons 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. Weapons inspectors returned to Iraq, and a rift in the international community emerged as to whether "serious consequences" should result if Iraq was found to be in material breach of UN Resolution 1441. ("Serious consequences" were read as war). In December 2002, Erdoğan stated the AK-led government was ready to support a military strike against Iraq. He stated that Turkey was concerned that the territorial integrity of Iraq be preserved after a war, that the economic effects of such a conflict should be taken into consideration, but that weapons of mass destruction in Iraq could not be tolerated. Turkey is also concerned about the possible effects of war on its Kurdish population: if the 3.5 million Kurds in northern Iraq organize following a defeat of Iraqi President Saddam Hussein's forces, Turkey fears they may want to form an independent Kurdish state, and to potentially unite with the 12 million Kurds in southeastern Turkey.

In February 2003, the United States was negotiating a deal with Turkey for the use of its military bases in the event of an attack on Iraq, and in exchange, promised to prevent the Kurds from imposing a federation-style form of government in Iraq, ensuring their continued autonomy. The United States also agreed to allow Turkish troops to cross into Iraq to observe the disarmament of Kurds once fighting had stopped. The Turkish parliament was to vote on allowing as many as 62,000 US troops and 320 military aircraft to use Turkish bases in the event of war, in exchange for \$26 billion in aid. As of February 2003, 95% of the Turkish population was against a war with Iraq.

For years, foreign companies have been involved in plans for a hydro-electric dam, the Ilisu Dam project, to supply Turkey with irrigation and electricity. In November 2001, British contractor Balfour Beatty pulled out of the project, as did the Swiss bank

UBS in March 2002, due to claims that the dam would have an adverse social and environmental impact on the region.

In January 2003, France, Germany, and Belgium blocked an agreement in NATO to have the 19-member alliance come to the defense of Turkey in the event of an attack from Iraq. The three countries stated providing military aid to Turkey at that time would be counterproductive to UN-led weapons inspections in peacefully disarming Iraq. Tensions were high within the alliance. The issue was resolved in February, with NATO stating it would stand behind Turkey. NATO-deployed Patriot missiles and AWACS surveillance aircraft arrived in Turkey in late February.

### 13 GOVERNMENT

The 1961 constitution vested legislative power in the Grand National Assembly, consisting of the House of Representatives, with a membership of 450 (elected for four-year terms), and the Senate of 165 members, of whom 150 were elected and 15 appointed by the president. The president of the republic—the head of state—was elected for a single seven-year term by a joint session of the National Assembly. The president was empowered to designate the prime minister from among the Assembly members; the prime minister in turn chose other cabinet ministers, who were responsible for general government policy.

The constitution ratified in November 1982, which replaced the 1961 document, declares Turkey to be a democratic and secular republic that respects the human rights of its citizens and remains loyal to the nationalistic principles of Atatürk. It vests executive powers in the president of the republic and the Council of Ministers. The president is elected by the National Assembly for a seven-year term. Legislative functions are delegated to the unicameral National Assembly, consisting originally of 400 members elected for five-year terms (the Senate was abolished). Under the constitution's "temporary articles," the five-person National Security Council (NSC) remained in power until the new parliament convened, at which time the NSC became a presidential council, to function for a period of six years before dissolving. These "temporary" provisions expressly forbade all former leaders of either the Justice or the Republican People's Party from participating in politics for 10 years; all former members of the previous parliament were forbidden to found political parties or to hold public office for five years. A referendum in September 1987 approved a proposal to lift the 10-year ban on political participation by leaders of the Justice and Republican People's Parties and numerous other politicians. Proposals to change the voting age from 21 to 20 years and expand the National Assembly from 400 to 450 members were approved in May 1987. By 2003, there were 550 seats in the National Assembly and the voting age had been lowered to 18.

Although the constitution guarantees individual freedoms, exceptions may be made in order to protect the republic and the public interest, or in times of war or other national emergency. The provision holding that an arrested person cannot be held for more than 48 hours without a court order may likewise be suspended in the case of martial law, war, or other emergency.

### 14 POLITICAL PARTIES

The first significant nationwide party, the Republican People's Party (Cumhuriyet Halk Partisi—CHP), was organized by Mustafa Kemal in 1923. Strong, centralized authority and state economic planning marked its 27 years of power (1923–50). It deemphasized everything religious to the point of subordinating religious activity and organization to state control.

Not until 1946 did a second popular party, the Democrat Party (Demokrat Parti—DP), come into being. Initially formed by a small group of dissident CHP members of parliament, the DP demanded greater political and economic liberalism and specifically a relaxation of central controls. When they came to power in 1950, the Democrats put into effect their policies of

economic expansion through rapid mechanization and free enterprise; they also emphasized rural development through liberal credit terms to farmers. These policies, aimed at broadening the base of the economy, helped to return the Democrats to power three times in succession. After 1954, however, the Democrat regime reinstated many of the former controls and instituted others, notably over the press. The CHP condemned these moves as well as what it regarded as lack of economic planning and of adequate fiscal and commercial controls. Both the Democrats and the CHP supported a firmly pro-Western, anti-Communist foreign policy.

In the first elections of the Second Republic (October 1961), none of the four competing parties won a controlling majority in either chamber, and a coalition government was formed for the first time in 1962. The coalition, however, was short-lived, for the newly formed Justice Party (Adalet Partisi—AP) withdrew from the governing group of parties and became the chief political opposition. The AP, which became the main political force in the country after the 1965 elections, favored private enterprise (in this respect it can be considered the successor of the DP, which was banned in 1960). Organized originally by local Democrat leaders, the AP came to reflect the views of modernization-minded professionals as well as workers and villagers. In the 1965 elections, the AP won 53.8% of the seats in the House of Representatives and 61% of the Senate seats. The elections of October 1969 confirmed its legislative predominance.

In December 1970, dissident members of the AP created the Democratic Party (Demokratik Parti). Another new organization, the Republican Reliance Party (Cumhuriyetçi Güven Partisi—CGP), formed by dissident members of the CHP, put up its first candidates in the 1969 elections. The National Salvation Party (Millî Selâmet Partisi—MSP) was created in March 1973 for the purpose of preserving Islamic traditions and bringing about economic and social reforms. In the general elections of 14 October 1973, the CHP replaced the AP as the most popular party in Turkey, although it did not achieve a parliamentary majority, and the CHP and MSP formed a coalition government under Bülent Ecevit. After the Ecevit government fell in September 1974, more than six months passed before a new permanent government was formed by Süleyman Demirel. His minority government of the Nationalist Front, which included representatives of the AP, CGP, MSP, and National Action Party (Milliyetçi Hareket Partisi), commanded 214 out of 450 National Assembly seats. After the CHP won 213 Assembly seats in the 1977 elections, Ecevit, having formed a minority cabinet, lost a parliamentary vote of confidence and had to resign. But his rival, Demirel, fared little better as prime minister, and his coalition government soon dissolved. Each served another brief stint as head of government prior to the 1980 military coup.

The new military government banned all political parties and, under the 1982 constitution, forbade the leaders of the AP and CHP from active participation in politics for 10 years. After the new constitution was approved, however, the government allowed the formation of new political groups. The first new party, the Nationalist Democracy Party, was formed in May 1983 by certain retired military officers, former government officials, and business leaders; it received support from the military but fared poorly in local and national elections and was disbanded three years later. Another new group, the rightist Great Turkey Party, was abolished by the government soon after its founding because of alleged close resemblances to the banned AP; the True Path Party (Doğru Yol Partisi—DYP) was established in its place but was not allowed to participate in the elections to the National Assembly on 6 November 1983. Also barred were the newly formed Welfare Party and the Social Democratic Party, and Demirel and other politicians were temporarily placed under military detention. The Populist Party, which the military was said to regard as a loyal opposition, and the Motherland Party

(Anatavan Partisi—ANAP), formed by conservative business leaders and technocrats, did win approval to run. In the balloting, the ANAP won a majority in the National Assembly, with 212 out of 400 seats, and its leader, Turgut Özal, became prime minister on 13 December.

Subsequently, all parties were allowed to participate in local elections. In 1985, the Populist Party merged with the Social Democratic Party to form the Social Democratic Populist Party (Sosyal Demokrasi Halkçı Partisi—SDHP). The Free Democrat Party was formed in 1986 as a successor to the Nationalist Democracy Party. In September 1987, the 10-year ban on political participation by over 200 leaders of the AP and CHP was lifted after a referendum indicated approval by a bare majority of just over 50%. At the same time, Özal announced elections in November of that year and had a law passed requiring nomination of candidates by party leaders rather than by popular choice. After challenges from opposition groups, the Constitutional Court declared the new procedure illegal. In the November 1987 elections, Özal was reelected as prime minister, with 36.3% of the vote; the ANAP won 292 of the 450 seats in the National Assembly (although polling only 36% of the vote), the SDHP won 99 seats, and the DYP took 59 seats. A coalition of True Path and Social Democrats defeated the Motherland Party in 1991. Outside the established political system are the Kurdistan Workers Party (PKK) and other smaller separatist parties which have been banned.

In 1993, Motherland Party leader Turgut Özal died while serving as president. He was succeeded by True Path leader Süleyman Demirel. In July of that year, Tansu Ciller, chairperson of True Path, became prime minister (Turkey's first female prime minister). Ciller headed a shaky coalition and in a budgetary debate in September 1995, her government collapsed. She lost a vote of confidence in October and new elections were held in December. The elections were won by the Welfare Party, which took 158 of 550 seats; although hardly a majority, this was 23 more seats than Ciller's True Path. Fearing an Islamic government, secularists scrambled to form a majority but failed, and in January 1996 President Demirel invited Welfare Party leader Necmettin Erbakan to form a government.

The Erbakan government lasted barely a year and a half. While popular in rural areas, it faced strong opposition from the business elite—which tends to be pro-Western—and the military. Beginning in 1997, the military let it be known that if Erbakan did not uphold Turkey's secular traditions, it would overthrow the government and return it to secular parties. In July 1997 Erbakan resigned and Motherland Party leader Mesut Yılmaz was asked to form a government. Following allegations of corruption, the Yılmaz government fell in November 1998 and was replaced by an interim minority government headed by Ecevit pending early elections.

Ecevit returned to head a minority government pending early elections in 1999. On 18 April 1999, Turkish voters gave Ecevit's DSP a plurality with 136 seats (22.3% of the vote). Ecevit went on to form a coalition government with the MHP and Motherland. In May 2000, President Demirel's long political career came to an end with the election of Ahmet Necdet Sezer as his successor.

Political pressure brought to bear on the Ecevit government in mid-2002 led to the resignation of 8 of his cabinet ministers and a call for early parliamentary elections. The elections were won by the Islamic-based Justice and Development Party (Adalet ve Kalkınma Partisi, or AK), in a landslide victory. The AK took 363 of 550 seats in parliament with 34.3% of the vote; the CHP took 178 seats with 19.4% of the vote; and independents took 9 seats, as other parties participating in the elections did not meet the 10% threshold for obtaining seats. Abdullah Gül became prime minister, but the AK leader, Recep Tayyip Erdoğan, retains power in the party. The rise of the AK is one demonstration of the

popularity of Islamic parties in Turkey, although the country is officially attempting to align itself with the West. The Islamic Welfare Party, which had appeal among the middle class, was banned and closed in 1998, and Erbakan was banned from participating in politics for 5 years. The Welfare Party's successor, the Virtue Party (Fazilet Partisi), was the main opposition party in 2001 when it was banned that June by the Constitutional Court for posing a threat to the state. A new party, the Felicity or Happiness Party (Saadet Partisi) was established by banned members of the Virtue Party. The AK also had its roots in the Virtue Party.

Former foreign minister Ismail Cem formed a new party, the New Turkey Party (Yeni Türkiye Partisi), which is centrist in orientation and polled 1% of the vote in the 2002 elections.

In April 2002, the PKK changed its name to the Kurdistan Freedom and Democracy Congress (KADEK).

## 15 LOCAL GOVERNMENT

The chief administrative official in each of Turkey's 81 provinces (vilayets or iller) is the provincial governor (vali), an appointee of the central government who is responsible to the Ministry of Internal Affairs. During the military takeover in 1980s, governors were made responsible to the military authorities, and provincial assemblies were suspended. In 11 mainly Kurdish southeastern provinces, a regional governor exercised authority under a state of emergency declared in 1987. The state of emergency was lifted in November 2002. For administrative purposes, provinces are subdivided into districts (kazas or ilces), which in turn are divided into communes (nahiyes or bucaks), comprising kasabas and villages. In municipalities and villages, locally elected mayors and councils perform government functions. Both levels of government have specified sources of income and prepare budgets for the allocation of such income, which are then subject to approval by the central government. Most public revenue, however, is collected by the Ministry of Finance in Ankara.

## 16 JUDICIAL SYSTEM

The judicial system was left substantially intact by the 1982 constitution, except for the addition of special state security courts to handle cases involving terrorism and state security. There are four branches of courts: general law courts, military courts, state security courts, and a constitutional court.

The general law courts include civil, administrative, and criminal courts. Decisions of civil courts with original jurisdiction are appealable to a high court of appeals in Ankara. The high court of appeals also hears cases involving charges against members of the cabinet and other high functionaries. It also hears appeals for criminal cases, including appeals from the state security courts. A council of state hears appeals from administrative cases.

The military courts have jurisdiction over military personnel and include courts of first instance and a military court of appeals.

The state security courts are composed of five-member panels. They are found in eight cities and try defendants accused of crimes dealing with terrorism, gang-related crimes, drug smuggling, membership in illegal organizations, and sedition.

The constitutional court reviews the constitutionality of legislation at the time of passage both when requested by the required percentage of members of parliament and in the context of review of constitutional issues which emerge during litigation.

The constitution guarantees the independence of the judiciary from the executive and provides for life tenure for judges. It also explicitly prohibits state authorities from issuing orders or recommendations concerning the exercise of judicial power. A high council of judges and prosecutors selects judges and prosecutors for the higher courts and oversees those in lower courts. In practice, the courts act independently of the executive.

The constitution guarantees defendants the right to a public trial. The bar association is responsible for providing free counsel to indigent defendants. There is no jury system. All cases are decided by a judge or a panel of judges.

The European Court of Human Rights is the final arbiter in cases concerning human rights.

## 17 ARMED FORCES

The total armed forces strength in 2002 was 514,850 active personnel and 378,700 reserves. The army numbered 402,000 and included 14 armored brigades, 17 mechanized brigades, 9 infantry brigades, and 26 border defense battalions. Army equipment included 4,205 main battle tanks. The navy had 52,750 personnel including 3,100 marines and 1,050 Coast Guards. Vessels included 13 submarines, 19 frigates, 49 patrol and coastal combatants, 24 mine warfare vessels, and about 27 auxiliary ships. Naval aviation provides 29 ASW aircraft and armed helicopters. The air force had 60,100 personnel and 485 combat aircraft. Paramilitary forces included a 150-member national guard. An estimated 36,000 Turkish soldiers were stationed on Cyprus. Turkey participated in peacekeeping missions in seven regions. Defense expenditures were estimated at \$8.1 billion in 2002, or 4.3% of GDP.

## 18 INTERNATIONAL COOPERATION

Turkey is a charter member of the UN, having joined on 24 October 1945, and belongs to ECE and all the nonregional specialized agencies. In December 1964, Turkey became an associate member of the former EEC; Turkey applied in 1987 for membership in the EC, including full membership in the EEC, but the application was opposed by Greece (unanimous consent of all EEC—now EU—members is required for admission). Talks on Turkey's accession to the EU were delayed until December 2004. Turkey is also a member of the WTO and a member of the Council of Europe, NATO, and OECD.

Relations with the United States, Turkey's principal aid benefactor, were strained during the 1970s over the Cyprus issue. After the Turkish military forces, using US-supplied equipment, had occupied the northern third of the island, the US Congress in 1975 embargoed military shipments to Turkey in accordance with US law. In response, Turkey abrogated its 1969 defense cooperation agreement with the United States and declared that it would take over US military installations in Turkey (except the NATO base at Adana). The US government then relaxed the arms embargo and finally ended it in 1978, after which Turkey lifted its ban on US military activities. Turkish-US relations improved markedly thereafter, and a new defense and economic cooperation agreement between the two countries was signed in 1980. In 1986, the 1980 agreement was renewed, allowing the United States to use some 15 Turkish military bases in exchange for continuing military and economic subsidies.

Turkey's once state-directed economy is a mix of modern industry and commerce and village agriculture and crafts. The trend towards urbanization, however, is clear as farmers and towns people are increasingly drawn to industrial cities like Istanbul, Denizli, and Bursa. From 1980 to 1999 state control of the manufacturing sector decreased from 41% to 22% as the number of public enterprises fell from 400 to 300, and private enterprises increased from 8300 to 11,000. Private sector employment increased from 64% to 88% of the labor force. However, the state remains in majority control of the utility sector—telecommunications, electricity generation and distribution, and gas distribution—steel manufacturing, petroleum refining, mining, transportation and agricultural processing, though the government is under considerable international pressure to proceed with privatization. Turkey also has a large black economy that some analysts estimate to be as large as 25–50% of the official economy. The government's continued subsidies to



state economic enterprises (SEEs) and its inability to tax the "unofficial" segment of the economy contributed to large budget deficits that most analysts identify as Turkey's primary impediment to sustained economic growth.

## 19 ECONOMY

Since the end of World War II, the agricultural share of the economy has declined, while that of the industrial sector (including construction) has expanded. This shift in economic activity is in part the result of deliberate government policy. Mechanization of agriculture has produced a significant shift in population from farms to cities, necessitating substantial urban and industrial development and, hence, a high rate of investment. However, this heavy investment, plus an explosion of consumer demand, has also contributed to severe inflation and balance-of-payments problems.

During the late 1960s and early 1970s, Turkey enjoyed a high economic growth rate, averaging about 7% annually. This growth was financed largely by foreign borrowing, increased exports, and remittances from Turkish workers in Western Europe. As a result of the large increases in oil import costs during 1973–74, however, Turkey's economic growth declined in real terms during 1974–80, and the country suffered a severe financial crisis. Stabilization programs implemented in 1978 and 1979 under a standby agreement with the IMF proved inadequate, but in January 1980, as a condition of further IMF aid, Turkey imposed a more stringent economic reform program, involving currency devaluation, labor productivity improvements, and restructuring of the nation's inefficient state enterprises.

In response to the reforms, the GNP grew on average by 4.8% from 1980 to 1994, the highest rate of any OECD economy. In 1994, structural problems, including inflation rates of between 60–90% and budget deficits of between 6–12%, eventually took their toll, plunging the economy into its worst recession since WWII. Real GNP declined by 6% and the inflation rate exceeded 130%. The underlying strength of the economy, together with a government austerity program designed to rein in spending, led to a turnaround in 1996, and in 1997 GNP grew by 8%. In 1998, real GNP growth slowed and then turned negative as the economy was effected by the Russian financial crisis and domestic political turmoil. Conditions worsened in 1999 as on 17 August 1999 Turkey was hit by the Kocaeli Earthquake (between Bursa and Izmit), the worst ever to hit the country, killing over 15,000, seriously injuring over 28,000, leaving about 500,000 homeless, and causing an estimated \$5 billion worth of damage. In 1999, nominal GNP growth was 46.3%, but inflation, as measured by the consumer price index (CPI), was 68.8% and real GNP declined 6.1%.

At the end of 1999, Turkey entered into a three-year standby arrangement with the IMF with a approved credit line of SDR15.038 billion (1560% of its quota, well in excess of the 300% of quota that is IMF's normal limit), with a stringent set of conditions designed to bring Turkey's chronic inflation under control. The World Bank followed in 2000 with a Country Assistance Strategy (CAS) that provided external program lending, technical assistance, analytical and policy advice. In 1999, the government took over ten insolvent private banks and then began criminal investigations into their operations. Several arrests were made of key bankers, including the nephew of a former president, accused of siphoning off funds in various ways. During 2000 real GNP grew at 6.3% and CPI inflation decreased to 39%. However, in late November the economy was suddenly beset with a banking crisis as foreign investors, apparently more concerned about what further investigations might reveal than convinced that banking was being cleansed, began to rapidly sell their Turkish assets and cut lending. An estimated \$6 billion left Turkey in 10 days, \$2.5 billion on 22 November 2000 alone.

Overnight interbank interest rates climbed to an annualized 1700%, at one point reaching 1950%. Domestic interest rates rose to 60%, almost double the precrisis level.

By early 2001, Turkey's stock market had lost nearly half of its value. A break in the precipitous divestment was achieved when the IMF announced an agreement to supply an additional \$7.5 billion credit in a one-year program under its Supplemental Reserve Facility (SRF) to run from 21 December 2000 to 20 December 2001. The reversal of the outflow proved only temporary, however. By late February 2001 the economy was plunged into a full-blown financial crisis, precipitated by the president's criticism of the prime minister's handling of the banking investigations during a meeting on 19 February 2001. The interbank overnight rate reached an annualized 7500% and the stock market lost nearly 18% of its value within a day. The central bank reportedly sold \$5 billion of its \$28 billion of reserves trying to defend the lira's exchange rate, but on 22 February 2001 it announced its decision to allow the lira to float. Its value dropped 36% in two days, as the exchange rate for the lira moved to 1,223,140 per 1 US dollar. For the year, real GNP fell 9.4% and inflation, measured by twelve-month end-of-period CPI, increased nearly 30% to 68.5%. Net public debt rose to 93.4% of GNP, up from 57.7% the year before. Net external debt doubled as a percent of GNP from 18.5% to 37.1%. In a step designed to restore investor confidence, Kemal Dervish, former vice president of the World Bank, was appointed head of the Turkish central bank. In July 2001 the World Bank revised its 2000 CAS program to include an additional \$1.2 billion on Special Structural Adjustment Loan (SSAL) terms, for a total possible lending of \$6.2 billion in the period 2001 to 2003. On 4 February 2001, the day Turkey's three-year stand-by arrangement with the IMF expired, the government entered into a new two-year stand-by arrangement with a SDR8.194 billion (\$11.3 billion) line of credit.

As of 30 April 2002, Turkey had outstanding with the IMF over SDR14 billion (\$19.3 billion). Turkey's economic prospects seem balanced between the confidence that can be engendered by its strict adherence to anticorruption, fiscal, monetary, and privatization reform programs and the political resistance and instability such strict adherence might provoke. Real GNP growth for 2002 was projected to be 3% with inflation held to the official target of 35%. To date Turkey remains far from its long-held objective of qualifying for membership in the EU. In December 2002 it was not among the 10 countries invited to join in the next EU expansion.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Turkey's gross domestic product (GDP) was estimated at \$468 billion. The per capita GDP was estimated at \$7,000. The annual growth rate of GDP was estimated at 4.2%. The average inflation rate in 2002 was 45.2%. 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 13% of GDP, industry 30%, and services 57%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$4,560 million or about \$68 per capita and accounted for approximately 2.3% of GDP. Worker remittances in 2001 totaled \$2,786 million. Foreign aid receipts amounted to about \$3 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,002. 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 10%. Approximately 45% of household consumption was spent on food, 18% on fuel, 6% on health care, and 5% on education. The richest 10% of the population accounted for approximately 32.3% of household consumption and the poorest 10% approximately 2.3%.

## 2<sup>1</sup>LABOR

The labor force numbered approximately 24 million in 2002. Of these, 40% worked in agriculture, 38% in services, and 22% in industry. The unemployment rate was 10.8% in 2002. Another 6.1% of the workforce was underemployed.

A 1946 law authorized the formation of labor unions and enabled them to engage in collective bargaining, and the right to strike was legally permitted in 1963, although general, solidarity, and wildcat strikes are explicitly prohibited. Employers' unions also exist, but members of one kind of union are prohibited from joining the other. There are four confederations, three public employees' unions, and 27 independent unions. As of 2002, slightly more than 13% of the total labor force was unionized. Union membership was largest in the textile industry, tobacco manufacturing, public utilities, transport and communications, and coal mining. After the 1960 overthrow of the Menderes government, trade unions pressed the government to act upon their demands for the right to strike, for collective labor contracts, and for various social benefits, which were provided for in law but had not been fully implemented. The right to strike and the right to bargain collectively remain restricted.

A detailed labor code administered by the Ministry of Labor controls many aspects of labor-management relations. Turkey has a basic 45-hour workweek, with a maximum of 7.5 hours per day and Saturday a partial holiday. Overtime is limited, and must be paid for at a 50% premium. No overtime is permitted in night work, underground work, or in industries considered dangerous to health. The minimum wage was \$124 per month in 2002. Workers usually are entitled to one paid day off per week. The minimum working age is 15, but in practice many children work out of economic necessity. It was estimated that one-third of Turkish workers were between the ages of 6–19.

## 2<sup>2</sup>AGRICULTURE

About 29.2 million hectares (64.6 million acres), or 38% of Turkey's total land area, are considered arable; in any given year, about two-thirds of arable land is under crops, and one-third is fallow. Little uncultivated arable land remains. The average holding is not more than four or five hectares (10–12 acres). Dry grain farming—in which half the land must lie fallow each year—offers little more than a subsistence standard of living. About 40% of the labor force is engaged in agriculture, which provided 13% of GDP in 2001. Large farms are concentrated mainly in the Konya, Adana, and Izmir regions. Agricultural methods still tend to be primitive, but modern machinery has been introduced. Much new land has been brought under cultivation since World War II (1939–45), and the increased use of chemical fertilizers and expansion of irrigated lands have increased yields per acre overall. In 1998, about 16% of all arable land was irrigated. Nevertheless, crop yields are still extremely sensitive to variations in rainfall. In good crop years, Turkey exports cereals, but in drought years, it must import them.

About 90% of the cultivated area is devoted to cereals. Wheat is the principal crop, accounting for 59% of total grain production in 1999; 18,000,000 tons of wheat were grown in that year, followed by barley with 9,000,000 tons. Turkey also produced 20,000,000 tons of sugar beets and about 3,650,000 tons of grapes. Other agricultural products were grown in lesser but still important quantities in 1999: maize, 2,400,000 tons; sunflower seeds, 860,000 tons; cotton, 802,000 tons; and oranges, 830,000 tons.

Turkish tobacco is world famous for its lightness and mildness. Most of the crop is grown in the Aegean region, but the finest tobacco is grown around Samsun, on the Black Sea coast. Tobacco and tobacco products represented 11% of total agricultural exports in 2001 and 1.4% of all Turkish exports that same year. Some 262,000 tons of tobacco were produced in 1999. Most of the cotton crop is grown around Adana and Izmir. Other crops of commercial importance include olives (1,650,000 tons in 1999), tea (120,000 tons), fruits, nuts, and vegetable oil. Turkey usually leads the world in the production and export of hazelnuts (about 580,000 tons produced in 1999) and ranks after Iran and the United States in pistachio nuts (40,000 tons).

The government stimulates production through crop subsidies, low taxation, price supports, easy farm credit, research and education programs, and the establishment of model farms. The government also controls the conditions under which farm products can move into world markets. For some products, such as grain, the government is the sole exporter. Turkey has recently begun exporting vegetables and fruits abroad, which has affected domestic market prices. Cotton and tobacco production levels are increasing as demands by the textile and cigarette industries have risen.

Turkey is one of seven countries authorized under the 1961 UN Convention on Narcotic Drugs to grow opium poppies for legitimate pharmaceutical purposes. In June 1971, after persistent US complaints that up to 80% of all opiates smuggled into the United States were derived from Turkish poppies, the Turkish government banned poppy growing; however, after efforts to find substitute crops failed, the government decided to rescind the ban on 1 July 1974. Areas authorized for poppy cultivation were estimated at 37,500 hectares (92,700 acres) in 1983; 5,000 hectares (12,350 acres) of opium capsule were sown in 1985. Government steps to curtail illegal cultivation, refining, and export of opiates were reportedly successful; in fact, Turkey has been one of the few opium-growing countries to crack down hard on drug smuggling.

## 2<sup>3</sup>ANIMAL HUSBANDRY

Turkey is heavily overgrazed. Many animals are used for transport and draft purposes as well as to supply meat and dairy products. The principal animals of commercial importance are mohair goats and sheep. The sheep wool is used mainly for blankets and carpets, and Turkey is a leading producer of mohair. Nevertheless, animal husbandry is generally poorly developed despite the great number of animals. In 2001 there were 28.5 million sheep, 10.7 million head of cattle, 7.2 million goats, and 258 million chickens. Production of wool was estimated at 40,900 tons in 2001. Other livestock products included cow's milk, 8.5 million tons; poultry meat, 631,000 tons; and hen eggs, 529,000 tons. Turkish apiculture produced some 60,190 tons of honey in 2001, fourth in the world.

## 2<sup>4</sup>FISHING

The total marine catch by Turkey's deep-sea fishermen was 460,521 tons in 2000, most of it anchovies and sardines caught as they migrate seasonally through the Bosphorus. In addition, 42,824 tons of freshwater fish were caught. Fishing equipment and methods have been substantially upgraded in recent years. For most of the population, however, the sea is not an important source of food. Exports of fish and fish products amounted to \$90.9 million in 2000.

## 2<sup>5</sup>FORESTRY

Forests, occupy 10,225,000 hectares (25,266,000 acres), or 13.3% of Turkey's total land area. State forests include almost all the forestland, while community or municipal forests and private forests are small. Care of state forests and all cutting therein are the responsibility of the directorate-general of forestry within the

Ministry of Agriculture. The timber cut in 2000 yielded 17,767,000 cu m (627 million cu ft) of roundwood, with 41% used as fuel wood. Production of sawn wood in 2000 was 4,683,000 cu m (165.3 million cu ft); wood pulp 304,000 tons; particleboard, 1,650,000 cu m (58 million cu ft) and paper and paperboard, 1,566,000 tons.

## 26 MINING

Although Turkey had a wide variety of minerals, its resources were only partially developed. Turkey was the world's largest producer of boron, accounting for half of world output, and was known for such industrial minerals barite, celestite (strontium), clays, emery, feldspar, limestone, magnesite, marble, perlite, pumice, and trona (soda ash). Other minerals actively exploited and marketed were copper, chromite, iron ore, sulfur, pyrite, manganese, mercury, lead, zinc, and meerschaum. Mining (of coal, chromite, copper, and boron) was Turkey's fourth-leading industry in 2002, followed by steelmaking, petroleum, and construction. The primary mineral sector's contribution to GDP has been in the 1.1–1.5% range; total revenues of the mineral industry (primary and processed mineral commodities, including refined petroleum products and steel) contributed 10%, and accounted for two-thirds of Turkey's manufacturing output. Turkey was a significant exporter of borates and steel, and also exported chromite, copper, zinc, and a wide variety of industrial minerals and derived chemicals; exports of crude mine and quarry materials accounted for 1.4% of Turkey's total exports in 2000, and those of processed mineral commodities accounted for 16%. Among crude minerals, copper exports earned \$221 million (\$180 million in 1999); dimension stone, \$189 million (\$151 million in 1999); and borates, \$108 million (\$123 million in 1999).

Production of copper (metal content) in 2000 was 76,053 tons, up from 40,000 in 1998; dolomite, 957,182 tons; limestone (other than for cement), 30.3 million tons, down from 52.4 million tons in 1998; marble, 647,160 cu m, compared to 739,240 in 1999 and 275,000 in 1996; quartzite, 2.74 million tons; chromite (gross weight), 545,725 tons, down from 1.7 million tons in 1997 (70% was salable); boron concentrates, 1.45 million tons, down from 1.65 million tons in 1998; bauxite from the public sector, 458,537 tons (30,000 tons per year were produced by the private sector); feldspar, 1.15 million tons; iron ore (metal content), 2.45 million tons, down from 3.2 million tons in 1998 and 3.5 million tons in 1996; celestite strontium concentrates, 25,000 tons; and meerschaum, 500 kg, down from 10,350 kg in 1989. Eskisehir, in northwestern Anatolia, was the world center of meerschaum (sepiolite)—Turkey was famous for its meerschaum pipes. Also produced in 2000 were alumina, antimony, gold, lead, manganese, silver, alumina sulfate (alunite), barite, hydraulic cement, clays (including bentonite and kaolin), emery, fluorspar, crude glass, graphite, gypsum, lime, magnesite, nitrogen, perlite, pumice, cupreous pyrite, sand and gravel, silica sand, sodium compounds (salt, soda ash [trona], and sodium sulfate), stone (basalt, diabase, granite, onyx, sandstone, serpentine, slate, and travertine), sulfur, talc, and zeolite. No zinc or cadmium was produced in 2000.

Despite the divestment of a large portion of the state-owned minerals sector holdings, to domestic and foreign investors, the government remained a significant factor in most sectors of the minerals industry, through shareholdings in a number of private companies and various state-owned industrial corporations. In recent years, the government has been encouraging mineral exports as well as domestic and foreign private mining investment. Ongoing privatization costs were expected to result in layoffs and the closure of inefficient operations. Most of the nation's 3,000 mines were small. Resources of metallic commodities minable by large-scale methods were known for bauxite, chromite, copper and copper-zinc, gold, iron, and silver.

## 27 ENERGY AND POWER

The bituminous coal field at Zonguldak on the Black Sea coast produces excellent coking coal. In 2000, output of coal totaled 74.2 million tons (about 90% soft coal). In recent years, Turkey has had to import several times as much petroleum as it produced. As of 1999, oil provided nearly half of Turkey's energy requirements, and about 90% of oil supplies were imported. In 2001, production of crude oil came to 56,142 barrels per day, while consumption totaled 617,000 barrels per day. Oil accounted for 42% of primary energy consumption as of 2002. In 2000 natural gas consumption was 14.7 billion cu m, or about 17% of its primary energy consumption. In the same year, natural gas production was 651 million cu m.

Turkey's geographical location makes it a natural transshipment route between the major oil producing areas in the Middle East, Central Asia, and the Caucasus on the one hand, and consumer markets in Europe on the other. Oil is shipped via supertankers through the Bosphorus, the narrow strait that connects the Black Sea to the Mediterranean Sea. Botas, a joint Turkish-Iraqi venture with its headquarters in Ankara, created a system of oil pipelines running from Iraq to Turkey, thus bypassing the Persian Gulf. The pipeline was shut down during the 1991 Gulf War, but in February 1996 Turkey and Iraq agreed to reopen the pipeline if Iraq and the UN could reach an agreement regarding the exchange of Iraqi oil for humanitarian aid. In 1998, it was reported that Iraq was smuggling up to 100,000 barrels per day of fuel and fuel products into Turkey.

Hydroelectric and thermal power plants in 2000 produced 119 billion kWh of electricity, of which 74.1% was from thermal, 25.7% from hydropower, and less than 1% from other renewable sources. Consumption of electricity in 2000 was 114.2 billion kWh. Total installed capacity in 2001 was 27.2 million kW. In the 1960s, lignite and water increased in importance as sources of energy, while coal and diesel oil dropped, but from the 1970s into the early 1980s, the importance of oil increased relative to other sources. In the 1980s, lignite again came to play an increasing role. Privatization of state assets has been underway since 1986, and Turkey's electricity sector, which is over 90% state-owned, is a chief target of this effort. Turkey's Electricity Market Law, passed in 2001, was a major step in the privatization of the power industry and the creation of a free market for power production and distribution.

Between 1980 and 1994, Turkish electric power demand grew at an average annual rate of 9.1%, among the highest such rates in the world. Continuing electricity shortages, resulting in frequent blackouts and brownouts, have made it a priority for Turkey to increase electrical capacity. As of 2002, the government was planning to nearly double the country's generating capacity by 2020 by adding more than 23,000 MW in additional power. Geothermal power could supply up to an estimated 31.5 million kW of additional capacity, but little progress has been made on exploiting the potential.

## 28 INDUSTRY

Overall industrial production, which had increased by annual rates of close to or over 10% from 1973 to 1977, fell sharply because of Turkey's financial crisis in 1978–79 and actually declined by 5% in 1979 and 1980. After the government's economic reform program slowed inflation and stabilized the lira, industrial production improved. Production rose 28% during 1985–87. State enterprises were restructured to reduce their government subsidies and to make them more productive and competitive with private firms. However, industry has continued to suffer from structural weaknesses and, in many firms, production facilities are obsolete. Production rose by an annual average of almost 5% 1980 to 1993, but fell more than 6% in the recession of 1994 as the chronic double digit inflation rose to

triple digits at 128%. Manufacturing output recovered strongly from 1994 to 1995, rising 30% from \$34.3 billion to \$44.7 billion, and then another 4.25% in 1996 to \$46.6 billion. The industrial production index (1992=100) rose to a peak of about 132 in May 1997, and capacity utilization peaked in September at 82%. The Russian financial crisis helped throw both indicators into decline and by August 1999 the industrial production index had fallen 20% to about 111 (1992=100) and capacity utilization to about 67%. Another period of recovery lasted until the banking crisis of late 2000, although capacity utilization remained below 77%. From November 2000 to October 2001 the industrial production index fell 20%, from 130 to 110 (1992=100), and capacity utilization dipped below 74%. The Turkish State Institute of Statistics (DIE) reported that for the 2001 industrial output declined 8.9% including a 9.9% decline in manufacturing, a 7.9% decline in mining, and a 1.5% decline in utility outputs. Continuing its roller coaster pattern, in the first quarter of 2002, the industrial production index was back up to 132 as capacity utilization rose marginally to 75%.

The textile industry, Turkey's largest manufacturing sector, is centered in Izmir, Istanbul, Adana, and Kayseri. The removal of EU quotas on imports of textiles and apparel when Turkey joined in a customs union with the EU in 1996 has improved growth prospects, and there is anticipation that the removal of global quotas in 2005 will offer even greater opportunities if carried out as scheduled.

Secondary mineral commodities, including refined petroleum products, steel, cement, glass, and certain chemicals account for over two-thirds of manufacturing output. Turkey's largest industry is petroleum refining. Turkey has very limited energy resources—it produced less than 8% of its oil consumption in 2001—but because of its strategic location between Europe and Asia, Christian and Moslem, oil consumers and oil producers, it is crossed by several major oil and gas pipelines. Turkey has six oil refineries, four operated by the state. The four state refineries—at Izmit (226,440 barrels per day capacity), at Aliaga (226,440 barrels per day), at Kirikkale (113,220 barrels per day), and at Batman (22,015 barrels per day)—are operated by the Turkish Petroleum Refineries Corporation (Tupras), which by 2002 had been 35% privatized in two public offerings with a third, aimed at bring the private share to 51%, delayed by the aftermath of the 11 September 2001 terrorist attacks on the United States. The government has announced the intention of privatizing Tupras 100%. The major private refinery in Turkey is Anadolu Tasfiyehanesi AS (ATAS), 51% owned by ExxonMobil, with participation by Shell (27%), BP Amoco (17%), and the Marmara Petrol (5%), and refinery capacity of 100,000 barrels per day. A small 6,000-barrels-per-day refinery in southeast, built in 1970 by the Texas oil engineering firm Baker-Howe, was bought in 1997 by Aladdin Middle East Ltd., a US-based company concerned mainly with oil exploration and development in this Kurdish-dominated region. The production of most refined petroleum products progressed Total refinery production suffered in the Russian financial crisis of 1998 and the Izmit earthquake of 1999, which damaged the Izmit Refinery in Kocaeli Province, epicenter of the earthquake. The production of motor gasoline, jet fuel, and liquefied petroleum gases peaked in 1997, while distillate fuel oil and total production of refined products peaked in 1998 (559,000 barrels per day). Residual fuel oil production peaked in 1995. In 2000, 141,000 barrels per day of residual fuel was produced, 135,000 barrels per day of residual fuel oil, 63,000 barrels per day of motor oil, 22,000 barrels per day each of jet fuel and liquefied petroleum gases, and 1,000 barrels per day of kerosene for a total production of 481,000 barrels per day.

Major industrial complexes include the government-owned iron and steel mill at Karabuk and the Eregli iron and steel works. Other important Turkish enterprises are brick and tile,

glass, leather, chemicals and pharmaceuticals, metalworking, cordage, flour milling, vegetable-oil extraction, fats and oils, paper products, printing and publishing, plastic products, and rubber processing. The sugar-beet industry ranks first among food-processing industries and produces more than domestic consumption requires. The automobile industry expanded rapidly in the 1970s. Tofas, a joint venture between Fiat and Koc Holding A.S, Turkey's biggest industrial conglomerate, is the leading automotive producer. In view of the collapse of domestic demand in its worst economic slump since 1945, Turkey is looking to automotive exports of over \$700 million in 2003 to help revitalize the economy. Much of the production of machines, consumer goods, and tools takes place in hundreds of small machine shops and foundries, where little special-purpose machinery is used. Industry accounted for 28.4% of GDP in 2000 (up from 25.9% in 1995) and, as of third quarter 2001, employed 22.4% of the labor force.

## 29 SCIENCE AND TECHNOLOGY

Turkey's industrial economy has just begun to apply advanced technology to basic industries. The government body that coordinates scientific research is the Scientific and Technical Research Council of Turkey (founded in 1963), in Ankara. The Mavmara Scientific and Industrial Research Institute (1972), in Istanbul, conducts research on basic and applied sciences, and industrial research. The Ankara Nuclear Research and Training Center (1967), attached to the Turkish Atomic Energy Authority, studies health physics, nuclear electronics, and plasma physics. The General Directorate of Mineral Research and Exploration (1935), also in Ankara, conducts the Geological Survey of Turkey and evaluates mineral resources. The Turkish Natural History Museum was founded in 1968 at Ankara. Turkey has 29 universities that offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 45% of college and university enrollments.

In 1987–97, total expenditures on research and development amounted to 0.5% of GNP; 291 scientists and engineers per 1 million population were engaged in research and development.

## 30 DOMESTIC TRADE

Individual firms tend to be small and specialized. There is virtually no commercial activity in villages; the villager comes into the market town to buy and sell. Government-operated exchanges for cereals are located in municipalities. If the price of grain in the free market falls below the supermarket price, the government-operated exchanges purchase the grain and market it. In this manner, the government controls the price range of cereals. Franchising has grown in the past few years, primarily in foreign fast-food and apparel firms. Value-added taxes apply to most goods and services with different rates for different products.

Because of the scarcity of some commodities, the government controls the distribution of various essential goods, notably cement, coal, lignite, and steel. Under a 1954 law, municipal authorities enforce specified profit margins on designated commodities. These margins are established at four levels: importer or manufacturer, distributor, wholesaler, and retailer. Customarily, a Turkish wholesaler supplies credit to retailers who, in turn, often extend credit beyond their own means to consumers. Wholesalers' margins tend to be small because of low overhead and keen competition. Due to Turkey's high inflation rate, wholesalers usually try to maintain minimal stocks to reduce carrying costs.

Most commercial firms belong to chambers of commerce, which exist in all cities. Chambers of industry are increasingly important in larger manufacturing centers. The government sponsors an international trade fair every year at Izmir.

Shops are normally open from 9 AM to 1 PM and from 2 to 7 PM, Monday through Saturday; smaller establishments tend to stay open later and not close for lunch. Banking hours are from 8:30 AM to noon and 1:30 to 5 PM, Monday through Friday.

### 31 FOREIGN TRADE

Turkey's trade balance has long been negative, but the deficit reached crisis proportions in 1974/75 and again in 1980/81, when import value was nearly double that of exports and the annual trade deficit approached \$5 billion. In 1985, the government mandated the creation of four free trade and export processing zones aimed at expansion and diversification of exports. By 1990, the deficit had risen to over \$9 billion and the ratio of exports to imports fell to 58%, compared to 81% in 1988. The gap narrowed slightly in 1991 and 1992, but widened in 1993. Exports have increased from \$18.1 billion in 1994 to \$21.6 billion in 1995 to \$24.5 billion in 1996. Total imports in 1994 amounted to \$23.3 billion, and rose to \$35.7 billion in 1995 and \$45 billion in 1996. Since 1994, strong domestic demand has caused imports to surge, along with the reduction of import duties that accompanied the introduction of the customs union in 1996. By 2000, exports equaled only slightly more than half of imports (50.8%), bringing back memories of trade balances of the 1970s and '80s.

The garment and textile industry in Turkey accounts for the largest amount of commodity exports (37%). Other exports include iron and steel (6.8%), fruits and nuts (3.6%), and televisions (3.0%).

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

Consumer goods	7.8%
Food	2.4%
Fuels	13.8%
Industrial supplies	33.9%
Machinery	23.6%
Transportation	14.5%
Other	4.0%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	5,171	7,163	-1,992
United States	3,074	3,887	-813
United Kingdom	2,024	2,702	-678
Italy	1,755	4,319	-2,564
France	1,652	3,515	-1,863
Netherlands	872	1,573	-701
Spain	704	1,666	-962
Russia	639	3,880	-3,241
Belgium	641	1,651	-1,010
Japan	n.a.	1,590	n.a.

### 32 BALANCE OF PAYMENTS

In 2000 and 2001, a trade deficit and a weak banking sector forced Turkey to float the lira, which caused the country to fall into recession. The economy improved in 2002, however, due in part to support from the IMF and tighter fiscal policies. The share of exports of goods and services in GDP rose to 31.5% in 2001, the first time it surpassed 25%. That year, imports of goods and services amounted to 29.2% of GDP. A current account deficit in 2003 was expected to widen to 2.5%–3% of GDP by the end of that year, but was forecast to move into surplus in 2004, due to a devaluation of the currency expected in 2004, and a decline in domestic demand. Total external debt by September 2001 stood at \$118.3 billion. In 2002, the IMF approved a three-year \$16 billion standby arrangement for Turkey, the fifth review of which,

by July 2003, was delayed due to the government's failure to agree with all of the conditions set by the IMF.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Turkey's exports was \$37.6 billion while imports totaled \$43.9 billion resulting in a trade deficit of \$6.3 billion.

The International Monetary Fund (IMF) reports that in 2001 Turkey had exports of goods totaling \$34.4 billion and imports totaling \$38.9 billion. The services credit totaled \$16.1 billion and debit \$6.93 billion. The following table summarizes Turkey's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>3,396</b>
Balance on goods	-4,537
Balance on services	9,130
Balance on income	-5,000
Current transfers	3,803
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-14,198</b>
Direct investment abroad	-497
Direct investment in Turkey	3,266
Portfolio investment assets	-788
Portfolio investment liabilities	-3,727
Other investment assets	-156
Other investment liabilities	-12,296
<b>Net Errors and Omissions</b>	<b>-2,086</b>
<b>Reserves and Related Items</b>	<b>12,888</b>

### 33 BANKING AND SECURITIES

The Central Bank of the Republic of Turkey was founded in 1930 as a privileged joint-stock company. It possesses the sole right of note issue and has the obligation of providing for the monetary requirements of the state agricultural and commercial enterprises by discounting the treasury-guaranteed bonds they issue. All foreign exchange transfers are handled exclusively by the Central Bank, which operates the clearing accounts under separate agreements with foreign countries. The bank has 25 domestic branches, plus a banknote printing plant and foreign branch offices in New York, London, Frankfurt, and Zürich.

As of 2002, Turkey had 69 banks. Banks supervised by the Central Bank play a declining role in the banking system, but 49% of total bank assets are still concentrated in three state-owned banks. The major private banks are mostly linked to industrial conglomerates, such as the Cukurova Group, owning the Construction and Credit Bank (Yapi ve Kredi Bankasi), Pamukbank, and Interbank; and the Sabanci Group, which owns Akbank. Several Western commercial banks are also active, as are some Middle Eastern trading banks. There are also three so-called special finance houses, which have adopted Islamic banking practices. Many observers predict large-scale bank consolidation as Turkey continues liberalizing its economy.

The five big state banks suffer from serious structural problems. These include overstaffing, political interference, and non-performing loans to other state institutions, which are not recorded as such. Many small and medium-sized banks are also poorly run. Some of these were badly hit by the financial crash of early 1994, and three were forced to close. A widespread shakeout in the banking system is regarded as likely in the longer term.

Two of Turkey's most important banks, the Sümerbank and Etibank, are also state investment-holding companies. Another important state financial institution is the Agricultural Bank, which supplies credit to the farm population. The largest private commercial bank is the Business Bank. Another private bank, the Industrial Development Bank of Turkey, stimulates the growth of private industrial development and channels the flow of long-

term debt capital into the private industrial sector for both short- and long-range development programs. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$8.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$86.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 91.95%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 60%.

The first securities market in the Ottoman Empire was the Dersaadet Securities Exchange, established after the Crimean war in 1866. The Istanbul Stock Exchange opened in 1985 and the Istanbul Gold Exchange commenced operations ten years later.

Turkey's only securities exchange is located in Istanbul. Because of the shortage of foreign exchange, there are no transactions in foreign bonds and stocks. With few exceptions, trading is in government bonds. Virtually all securities issued by private enterprises are sold privately through personal arrangements between buyers and sellers. Still, the Istanbul Stock Exchange has developed impressively, if not erratically, in recent years. In 2001, there were 310 companies listed, the most in the exchange's history. Total market capitalization was \$47 billion, and trading value was nearly \$78 billion with a sky-high turnover rate of 162%.

### 34 INSURANCE

Government regulations effective 1929 and subsequently amended require all insurance companies to reinsure 30% of each policy with the National Reinsurance Corp., a state organization; in 1954, life policies were exempted from this requirement. It is possible to secure insurance policies for flood damage, third-party liability, earthquake, commercial shipments, theft, fire, and accident, as well as life. Varied social security schemes are administered directly by the state. Third-party automobile liability, workers' compensation, and employers' liability are all compulsory. Workers' compensation is covered solely by the government as a part of the Social Security scheme. The insurance market is officially regulated through the Ministry of Commerce.

### 35 PUBLIC FINANCE

Beginning in 1983, the fiscal year was changed to start on 1 January instead of 1 March. The consolidated budget includes the general budget of the government (by ministry) and a number of annexed budgets, which pertain to semiautonomous state activities, such as universities. Additionally, each section is divided into operating and investment expenditures. The budget is invariably in deficit.

In early 1994, the budget deficit and high transfers to inefficient state enterprises led to an economic crisis with inflation peaking at 150%. The government replied with an austerity program that succeeded in reducing inflation but sent the economy into recession. The government's commitment to reform waned as the economy began to rebound in 1995. Expenditures again exceeded revenues, forcing the government to incur increasing amounts of expensive debt to fund current expenses and support state enterprises. The Ecevit government restarted structural reforms in 1999 under ongoing programs of standby agreements with the IMF. However, in 2000/01, banking crises, political disputes, and a rapidly growing current account deficit set the economy into a deep downturn that forced the government to adopt a floating exchange rate regime, an ambitious reform program, a tight fiscal policy, additional structural reforms, and unparalleled levels of IMF lending.

The US Central Intelligence Agency (CIA) estimates that in 2001 Turkey's central government took in revenues of approximately \$42.4 billion and had expenditures of \$69.1

billion. Overall, the government registered a deficit of approximately \$26.7 billion. External debt totaled \$118.3 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%	42,400
Tax revenue	79.2%	33,593
Non-tax revenue	16.1%	6,843
Capital revenue	4.6%	1,963
EXPENDITURES	100.0%	69,100
General public services	2.5%	1,758
Defense	6.2%	4,265
Public order and safety	3.5%	2,395
Education	7.9%	5,477
Health	3.1%	2,138
Social security	5.9%	4,095
Housing and community amenities	1.8%	1,213
Recreation, cultural, and religious affairs	0.8%	532
Economic affairs and services	7.3%	5,033
Other expenditures	11.1%	7,653
Interest payments	50.0%	34,541

### 36 TAXATION

All persons domiciled in Turkey, whether of Turkish citizenship or otherwise, are subject to taxation on income. Certain categories of foreigners are taxed only on income earned in Turkey—specifically, foreign business representatives, consultants, scientists, government officials, press correspondents, and others who do not intend to become permanent residents regardless of length of stay. Income tax rates are progressive, ranging up to 55%. The basic corporate tax is 25%; however, a withholding tax of 10% for public companies and 20% for private companies is levied. Furthermore, there is a surcharge of 10% assessed. Thus, the total effective corporate tax rate is 45–55%. A tax law of 1961 required farmers, not previously subject to income tax, to file a return.

A value-added system was introduced in 1985 replacing eight indirect taxes. The standard rate is 15%, but there are two reduced rates: 8% for essential food products and 1% for exported goods. A new law on VAT adopted December 2001 abolished two higher rates of 26% and 40% applied to luxury goods.

Turkish law provides for excise taxes on a very wide range of products. On 6 June 2002, parliament enacted the Special Consumption Tax Law that consolidated various excises and gave the Council of Minister power to set aside the earmarking of excise proceeds. Multiple excises on the same product were consolidated reducing taxpayer compliance costs. The tax reform program aimed at producing a primary surplus of 6.5% but not all the elements designed to increase tax collection have been adhered adequately implemented. The personal consumption tax on items excluding natural gas was increased according to the January wholesale price index instead of being increased 1% in real terms. In March 2002, payroll and personal income tax deferrals were introduced to stimulate employment, but contrary to a ban on new exemptions and incentives outside the tax reform plan.

Land and buildings are taxed on the basis of assessed value. Other levies include stamp taxes on documents, vouchers, shares, and securities; fees on legal, bank, and insurance transactions; a 10% tax on interest income on bank loans; output taxes; a petroleum production tax; a sales tax; service taxes; and inheritance and gift taxes. Business establishments are subject to

an old age insurance tax and an illness and disability tax, shared by employers and employees.

### 37 CUSTOMS AND DUTIES

Turkey is a member of the World Trade Organization and aligns its customs policies with WTO regulations. Turkish customs duties are assessed on an ad valorem basis only. Present customs classification conforms to standardized international nomenclature. Duty-free entry is provided for many types of imports. In 1996, Turkey aligned its tariffs with the EU's common external tariff system. Importers no longer need an import license and import authorization from a bank. A government monopoly, TEKEL, controls alcohol and cigarette imports. Narcotics and weapons are strictly prohibited. Other charges include a value-added tax (VAT) ranging from 0–26%, a 15% municipal tax, and a 10% stamp tax.

### 38 FOREIGN INVESTMENT

Although Turkey has been the recipient of considerable foreign aid, its leaders have also recognized the need for private foreign investment. By 1970, foreign capital could operate in any field of economic activity open to Turkish private capital, and there was no limit on the percentage of foreign participation in equity capital. However, direct capital investment by foreign companies from 1960 to 1979 averaged no more than \$20 million annually, very low by OECD standards. This changed dramatically in 1980 with new foreign investment policies that cut red tape to gain more rapid approval for investment applications; inflows of private capital increased to \$97 million in 1980, \$337 million in 1981, and \$913 million in 1992. In 1997, foreign direct investment in Turkey totaled over \$1 billion. A majority (56.8%) of this investment went into manufacturing, while 40.5% was in services, 1.6% in agriculture, and 1.1% in mining.

Total Turkish direct foreign investments abroad totaled over \$1.4 billion in 1997. Just over \$323 million (22.2% of the total) is invested in the UK, \$297.7 million in Germany, \$102.2 million in the Netherlands, and \$86.2 million in Russia. Other destinations for Turkish investors include Azerbaijan, Luxembourg, Romania, and Kazakhstan.

### 39 ECONOMIC DEVELOPMENT

Economic policy is formulated by the State Planning Organization. In June 1961, an integrated fifteen-year plan was announced, consisting of three five-year plans designed to achieve a 7% yearly increase in national income. In March 1963, the first five-year plan was inaugurated; this 1963–68 program to some extent fell short of its goals, but its average annual increase of 6.7% in GNP was still impressive. Two objectives of the second five-year plan (1968–72) were economic viability and social justice. The role of the public sector under this program was twofold: creation and expansion of the economic and social infrastructure and development of modern manufacturing industries. Economic policy, however, still sought the largest possible active role for private enterprise in the development of industries, and the government sought with limited success to encourage private activity through fiscal concessions, financial assistance, and state participation in mixed enterprises. The third five-year plan was inaugurated in 1973 with the objective of helping Turkey prepare for its future membership in the EC. The long-term goals were to increase the per capita GNP from \$400 in 1972 to \$1,500 by 1995, to reduce agriculture's share of the GDP to 12%, and to increase industry's share to 37%. One of the main aims of the third five-year plan, still largely unmet, was to increase the efficiency of the tax-collection service. In agriculture, the objectives were to increase food supplies for export and to feed a growing population through improved irrigation, technical advice to farmers, and the establishment of more cooperative farms.

All these efforts required large new investments and massive foreign loans which, coupled with the huge increases in the cost of oil imports after 1973, led to the financial crisis of 1977–78. Since 1980, Turkey has deliberately pursued a deflationary policy, allowing the international exchange rate of the lira to fluctuate on a daily basis from 1 May 1981. The government also delayed several ambitious development proposals, mainly because new foreign credits were not available. However, a number of smaller projects financed by the IBRD went forward. Meanwhile, the fourth (1979–83) and fifth (1985–90) five-year plans continued to stress industrial development, deflationary monetary policy, and export promotion. The creation of free trade zones, in the mid-1980s, was a major step in line with these policies.

Long-term economic programs adopted in 1991 and 1994 planned to reform social security and subsidy programs, implement tax reforms and improve tax administration, and restructure state enterprises, transferring certain inefficient ones to the private sector. By 1996, these plans had reduced the government's role in the economy, but huge budget deficits continued to plague the economy and further reforms are needed if Turkey is to solve its economic problems.

Turkey's geostrategic significance received a big boost in 1999 when its leaders, along with those of Azerbaijan, and Georgia agreed to the construction of an oil pipeline from the Caspian Sea port of Baku to the Turkish Mediterranean port of Ceyhan. Completion of the pipeline may come as soon as 2004.

Full membership in the European Union (EU) constitutes one of Turkey's chief aims. In December 1997 Turkey was effectively removed from the EU's list of candidates for entry. As a result, Turkey suspended its relations with the EU. However, the 1997 decision was reverse at the December 1999 EU summit in Helsinki as Turkey formally became a candidate for accession in the next round of EU enlargement. Turkey's chronic economic problems along with reservations about human rights preclude Turkish entry for at least a decade according to most observers. Nevertheless, Turkey's status as a candidate member provides clear goals for Turkish development.

### 40 SOCIAL DEVELOPMENT

The social insurance system provides old age, disability, and death pensions for employees in industry, commerce, and the service sector. Special systems cover other workers. The benefits are funded by payroll taxes and employee contributions of 9% of earnings. To qualify for an old age pension, a worker must be at least 55 years old (50 for women) and must have worked at least 15 years or made contributions on at least 5,000 days' wages. Sickness and maternity benefits are also covered. Employers contribute additional funds to cover worker's injury insurance. The labor code requires employers to pay an unemployment indemnity of 30 days wages per year of employment. The Social Insurance Institution provides medical services in its own hospitals and other facilities. Turkey is a secular state and all citizens are proclaimed equal in the constitution.

The civil code explicitly bans sex-based privileges, yet proclaims the male as the legal head of the household. This grants the male the right to choose the place of residence, and most assets are held in the name of the husband. Women in urban areas are increasingly working outside the home. Women generally receive equal pay for equal work in the professions, but are underrepresented in managerial positions. Spousal abuse and violence are widespread. Authorities hesitate to intervene in domestic matters, and violence against women goes largely unreported. Reports of child abuse have increased in recent years. Kurds are the largest ethnic minority and suffer discrimination, especially in less-industrialized areas. The government is responsible for widespread human rights abuses, including beatings, torture, and killings by security forces. Freedom of

speech and of the press are limited. Human rights organizations are subject to harassment and possible closure by the authorities.

#### 41 HEALTH

Free medical treatment, given at state hospitals or health centers, is provided by the state to any Turkish citizen who obtains a certificate of financial need from a local administrator. In 1992, there were 941 hospitals with 139,606 beds (2.4 per 1,000 people). Of this number, 616 were public, with 72,513 beds. As of 1999, there were an estimated 1.2 physicians and 2.6 hospital beds per 1,000 people. In 2000, 83 % of the population had access to safe drinking water and 91% had adequate sanitation.

Malaria, cholera, and trachoma have been effectively controlled by large-scale public preventive measures. In 1999 there were 38 cases of tuberculosis per 100,000 people. Immunization rates for children up to one year old in 1997 were tuberculosis, 73%; diphtheria, pertussis, and tetanus, 79%; polio, 79%; and measles, 76%. In 1995, there were 30,997 deaths of children under five from diarrheal disease. Malaria incidence has decreased from 47,156 in 1993 to 13,467 in 1995.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 17.9 and 6 per 1,000 people. About 64% of married women (ages 15 to 49) used contraception in 2000. In the same year the total fertility rate was 2.4 children for every Turkish woman who lived through her childbearing years. Average life expectancy was 70 years in 2000. In the same year infant mortality was estimated at 34 per 1,000 live births. Maternal mortality was 130 per 100,000 live births in 1998. Between 1984 and 1992, there were approximately 5,000 war-related deaths in the Kurd rebellion.

The HIV prevalence rate was 0.0 per 100 adults in 1999. Only 194 AIDS cases were reported in 1996.

Tobacco consumption in Turkey has increased from 2.0 kg a (4.4 lbs) year per adult in 1984 to 2.2 kg (4.9 lbs) in 1995.

#### 42 HOUSING

A traditional village house consists of sun-dried brick (adobe) or rough-hewn stone walls across which are laid timbers piled with brush and then topped with packed earth. The flat roof is often used for storage of feed grain. Floors are often bare earth covered with matting or lightweight carpets. Little furniture is used. Urban housing varies from houses similar to those in villages to modern, centrally heated apartment buildings.

From 1981 through 1985, 305,890 new residential buildings containing 929,104 apartments were completed. As of 1985, over 70% of all housing units were detached houses.

In 1999, major earthquakes in August and November left about 800,000 people homeless. The disasters brought to light the issues of substandard housing and illegal construction permits. The Turkish Chamber of Commerce estimated that about 65% of all buildings were built with illegal permits or below regulations, producing structures that are in no way suited to withstand the earthquakes to which Turkey is prone. International assistance has helped to rebuild and repair a number of homes.

The Collective Housing Administration Directorate, founded in 1984, had provided credit for over 1,125,889 residential construction projects between. The housing need has been estimated at 400,000 new dwellings per year.

#### 43 EDUCATION

For the year 2000, adult illiteracy rates were estimated at 14.8% (males, 6.4%; females, 23.3%). Primary, secondary, and much of higher education is free. Education is compulsory for children ages 6 to 14 or until graduation from primary school (grade five). However, owing to the inadequate number and distribution of schools and teachers, only about 56% of the children attend secondary school. Secondary schooling is for six years.

The regular school system consists of five-year primary schools, three-year junior high schools, and three-year high schools. Parallel to this system is a variety of technical, trade, and commercial schools. Among private schools in operation are a number of foreign schools and those maintained by ethnic or religious minorities. Among Turkey's 28 universities are the universities of Istanbul (founded 1453) and Ankara (founded 1946), the Technical University of Istanbul (founded 1773), and the Middle East Technical University at Ankara (founded 1957).

In 1997 there were 47,313 primary schools, with 6,389,060 students. Also in 1997, enrollment in all secondary-level schools was 4,760,892 students, with 218,829 teachers. As of 1995, an estimated 99% of primary-school-age children were enrolled in school, while 51% of those eligible attended secondary school. In the same year, public expenditure on education was estimated at 2.3% of GDP. The universities and other public higher institutions had 1,434,033 students and 50,313 faculty members in 1997.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Ankara had 960,000 volumes in 2000. There are two provincial branches of the library system as well: the Beyazit State Library in Istanbul with 500,000 volumes and the National Library of Izmir with 350,000 volumes. Major University collections include the Istanbul University and Documentation Center with 1.5 million volumes and one of the Middle East's finest rare book collections; the Middle East Technical University with 145,000 volumes, and the University of Ankara with 750,000 volumes.

The most famous museums and ancient buildings are located in Istanbul. The old seraglio, now Topkapı Museum, is perhaps the most famous; it houses a large collection of paintings, manuscripts, and historically important items. Nearby is the Ayasofya (Saint Sophia), the world-renowned Byzantine church that draws thousands of tourists to Istanbul. Next to it is the Blue Mosque, famous for the beauty of its interior and the grace of its dome. Also in Istanbul are the museums of archaeology and of the ancient Orient, housing one of the world's finest collections of Greek art, including the sarcophagus of Alexander the Great. Additionally, the city is home to the Museum of Turkish written Art, the Istanbul Museum of Painting and Sculpture, and the Museum of Revolution. The Museum of Archaeology in Ankara contains the world's outstanding collection of Hittite works. Also in Ankara are Atatürk's Mausoleum and Museum, the Museum of Anatolian Civilizations, and the Museum of the Turkish Independence War and Turkish Republic. In Konya there are museums of Islamic art, one of which is housed in the mausoleum of Mevlana. Newer facilities include the decorative arts museums at the Beylerbeyi and Dolmabahçe palaces (both opened in Istanbul in 1984) and the Fire Brigade Museum in Fatih (1992). Along Turkey's Aegean coast are situated the ruins of Ephesus, Pergamum, Troy (Ilium), Halicarnassus, and other famous ancient cities. A zoological garden is located in Ankara.

#### 45 MEDIA

Postal, telephone, and telegraph service is owned and operated by a semi-independent government enterprise under the jurisdiction of the Ministry of Transport and Communications. Mainline telephones in 1999 numbered about 19.5 million, with 17.1 million cellular phone subscribers in 2001.

In 2001, there were 16 AM and 107 FM radio stations. In 1995, there were 635 television broadcast stations. All broadcasts are monitored by the government through The High Board of Radio and Television. In 2000, Turkey had 573 radios and 449 television sets for every 1,000 people. In 2001, there were 50 Internet service providers serving 4 million subscribers.

Although the 1982 constitution guarantees freedom of expression, it also authorizes newspaper confiscations and



closures in the cases of crimes against the unity, security, or republican principles of the state. After the 1980 coup, the military government, which had vested control of the press in the provincial martial law administrators, repeatedly closed down newspapers it claimed had published material damaging to the national interest. As of 1999, the government is still said to limit free expression significantly. In 2002, there were over 100 daily newspapers in print many of which had small local circulations. The independent leftist *Cumhuriyet* (1999 circulation 120,000) has been closed and reopened a number of times. Other leading Istanbul dailies (with 2002 circulation figures) are *Sabah* (700,000); *Hurriyet* (542,780); *Gunaydin-Tan* (386,000) and *Bugun* (184,880). *Turkiye* and *Milliyet* are both distributed throughout the major cities; circulation figures were unavailable in 2002.

#### 46 ORGANIZATIONS

Professional organizations, charitable associations, student organizations, and athletic clubs are active in the major cities. Chambers of commerce and chambers of industry are semiofficial agencies for the control of import license and foreign exchange allocations. The Union of Chamber of Commerce, Industry, and Maritime Commerce and Commodity Exchanges of Turkey, established in 1952, is based in Ankara.

There are several Masonic lodges and branches of the Rotary and Lions clubs. Women are active in a number of their own charitable organizations. National women's rights and development organizations include the Federation of Women's Associations, the Turkish Cypriot Association of University Women, Women for Women's Human Rights/New Ways, and the Association of Women's Rights Protection. National youth organizations include the International Islamic Federation of Student Organizations, Youth for Habitat, the Youth Services Center, Scouting and Guiding federation of Turkey, and YMCA/YWCA.

Since World War II, international cultural associations have appeared, chief among them being Turkish-American, Turkish-French, Turkish-German, and Turkish-English. The Research Center for Islamic History, Art and Culture, based in Istanbul, is multinational subsidiary organization of the Organization of the Islamic Conference (OIC). The Scientific and Technical Research Council of Turkey and the Turkish Academy of Sciences promote public interest, education, and research in a broad range of scientific fields. The Red Crescent Society is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

In addition to the museums and monuments of Istanbul, places of interest include the Aegean ports of Izmir and Bodrum; the ancient cities of Troy (Ilium), Ephesus, Tarsus, Konya, Samsun, Erzurum, and Trabzon; Mt. Ararat, traditionally considered the landing place of Noah's Ark, the remains of which some expeditions have tried to find; the ski resort of Uludag, 36 km (22 mi) south of Bursa; and the sea resort of Antalya, on the Mediterranean coast. Water sports, mountaineering, and football (soccer) are popular forms of recreation, as are such traditional Turkish sports as grease wrestling (*yağlı güreş*), camel fighting (*deve güreşi*), and a horseback javelin competition (*cirit oyunu*) played mainly in eastern Turkey.

Citizens of the United States, Canada, Japan, and most Western European countries need a valid passport but no visa for stays of up to three months. Foreigners entering without a visa and remaining longer than three months must secure a residence permit from the police. No vaccinations or inoculations are required of visitors arriving directly from Europe or the United States.

In 2000, 9,585,695 tourists arrived in Turkey. Tourism receipts totaled \$7.6 billion. There were 155,441 hotel rooms and 322,334 bed-places with a 37% occupancy rate that year.

In 2001, the US State Department estimated the cost of traveling in Istanbul at \$218 per day; the estimated daily cost of staying in Ankara was \$223.

#### 48 FAMOUS TURKS

The most famous rulers before the coming of the Turks were Croesus (r.560–546 BC), a king of Lydia noted for his wealth and for the loss of his kingdom to the Persians; Constantine I (the Great; Flavius Valerius Aurelius Constantinus, b.Moesia, AD 280?–337), the first Roman emperor to accept Christianity and to use Constantinople as a capital; and Justinian I (the Great; Flavius Petrus Sabbatius Justinianus, b. Illyricum, 483–565), a Byzantine emperor whose collection of laws and legal principles has been the model for European law down to modern times. Outstanding political figures since the arrival of the Turks include Sultan Mehmet II (1429–81), conqueror of Constantinople in 1453; Sultan Süleyman I (the Magnificent, 1495–1566); the Barbarossa brothers, Aruj (1473?–1518) and Hayreddin Paşa (Khayr ad-Din, 1466?–1546), naval commanders, born in Mytilene, who established Turkish supremacy in the Mediterranean; Mehmet Köprülü Paşa (1583–1661), Mehmet IV's grand vizier and founder of a family line of outstanding grand viziers; Sultan Abdul Hamid II (1842–1918), a despotic ruler whose tyranny led to the formation of the Young Turk movement; Enver Paşa (1881–1922), Young Turk leader who was the ruler of Turkey during World War I; Mustafa Kemal Atatürk (1881–1938), World War I military commander, nationalist leader, and first president of the republic; İsmet İnönü (Paşa, 1884–1973), Atatürk's chief of staff and prime minister, who succeeded him as president (1938–50) and was the first prime minister of the Second Republic (1961–65); Celâl Bayar (1883–1986), who helped found the Democrat Party and was president (1950–60) until ousted by the military; and Adnan Menderes (1899–1961), prime minister (1950–60) until he was forced to resign and then executed. Outstanding religious figures include Hacı Bektaş Veli (1242–1337), founder of the Bektashi dervishes, and Mevlana (Celâleddin-i Rumi or Jalal al-Din Rumi, 1207–73), author of the epic *Mesnevi* (or *Mathnavi*) and founder of the Mevlevi dervishes.

Revered literary figures include the mystical poets Yunus Emre (1238?–1320?) and Süleyman Çelebi (d.1422), author of *Mevlidi Sherif* (*Birth Song of the Prophet*). Other significant poets of the imperial epoch are Ahmedi (1334–1413), Şeyhi (d.1429?); Fuzulî (1494–1555), renowned for his lyrical verses about platonic love; Ali Şîr Nevâî (1441–1501); Nef'î (1582?–1636); Nabî (1642?–1712); Ahmet Nedim (1681–1730), perhaps Ottoman Turkey's greatest love poet; and Şeyh Galib (1757–98), the last great poet of the mystical and classical tradition. Renowned for his geographical and historical writings is Kâtip Çelebi (known in Europe as Haji Khalifa, 1609–57); the great traveler Evliya Çelebi (1611–82) is noted for his books on travel and history. The greatest folk poet was the 17th-century minstrel Karacaoglan.

Sinasi (1826–71), a dramatist, journalist, and essayist, was the first Turkish writer in the Western tradition. Other significant playwrights are Musaipzade Celal (1870–1959), Haldun Taner (1916–86), and Necati Cumali (b.1921). The poet Ziya Paşa (1825–80) was the outstanding literary figure of the reform period. Namik Kemal (Ahmed Kemal, 1840–88) and Mehmet Emin Yurdakul (1869–1944) dedicated their poetry to the achievement of political ideals. Four widely read novelists are Huseyin Rahmi Gurbinar (1864–1944), Ahmet Rasim (1864–1932), Halit Ziya Usakligil (1865–1945), and Mehmet Rauf (1871–1931). Omer Seyfettin (1884–1920) was a major short-story writer. Ziya Gökalp (1875–1924) was a noted poet and sociologist. Significant contemporary novelists include Halide Edib Adivar (1884–1966), Yakup Kadri Karaosmanoglu (1888–1974), Refik Halit Karay (1888–1974), Reşat Nuri Güntekin (1892–1957), Kemal Tahir Demir (1910–74), Orhan Kemal

(1914–70), and Yasar Kemal Gokceli (b.1922). Two fine modern poets were Yahya Kemal Beyatli (1884–1958) and Nazim Hikmet Ran (1901–60). Two prominent journalists and political writers were Hüseyin Çahit Yalçın (1875–1957) and Ahmet Emin Yalman (1889–1973). Outstanding historians were Naima (1752–1815), Mehmet Fuat Köprülü (1890–1966), and Ahmet Zekî Velidî Togan (1890–1970).

Other famous Turks include the architect Sinan (1490–1588), the miniaturist Abducelil Celebi Levni (d.1732), and the modern painter Bedri Rahmi Eyuboglu (1913–75). Famous contemporary composers include Ulvi Cemal Erkin (1906–72) and Ahmet Adnan Saygun (1907–1993). The operatic soprano Suna Korad (b.1934) and bass-baritone Ayhan Baran (b.1929) have won renown in European musical circles.

#### 49 DEPENDENCIES

Turkey has no territories or colonies.

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# TURKMENISTAN

**CAPITAL:** Ashgabat (Ashkhabad)

**FLAG:** Green field with claret stripe of five carpet patterns; white crescent and five white stars symbolizing five major regions of Turkmenistan to the right of the stripe. In 1997, two crossed olive branches were added beneath the carpet patterns.

**ANTHEM:** *Independence Turkmenistan.*

**MONETARY UNIT:** Manat (MN), the unit of currency, was introduced by the government in November 1993. In January 2003, \$1 = MN5,200, but exchange rates fluctuate widely.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1 January; Flag Day, 19 February; International Women's Day, 8 March; Novruz Bairam (first day of spring), 21 March; Victory Day, 9 May; Revival and Unity Day, 18 May; Independence Day, 27 October; Neutrality Day, 12 December.

**TIME:** 5 PM = noon GMT.

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

Turkmenistan is located in central Asia, bordering the Caspian Sea, between Iran and Uzbekistan. Comparatively, Turkmenistan is slightly larger than the state of California, with a total area of 488,100 sq km (188,456 sq mi). Turkmenistan shares boundaries with Kazakhstan and Uzbekistan on the N, Afghanistan on the SE, Iran on the SW, and the Caspian Sea on the W. Turkmenistan's boundary length totals 5,504 km (3,420 mi), of which 1,768 km (1,099 mi) is shoreline along the Caspian Sea. Turkmenistan's capital city, Ashkhabad (which means "city of love"), is located in the southwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography features flat to rolling sandy desert with dunes to the Caspian Sea, which lies in the west. The Kara Kum desert occupies over 80% of Turkmenistan's total area. The desert is bounded by oases in the north that are watered by the Amu Dar'ya, and by the Murgab, Tejen, and Atrek rivers in the south. The highest point in Turkmenistan is the Gora Ayribaba (3,139 m/10,299 ft), located along the eastern border near Uzbekistan. Only 4% of Turkmenistan's land is arable with approximately 2.5% under irrigation.

## <sup>3</sup>CLIMATE

The climate is arid continental. In July the mean temperature is 28°C (82°F). The mean temperature in January is -4°C (25°F). It can become very hot in the Kara Kum desert, with daytime temperatures of 50°C (122°F) not unusual. It does not rain much in Turkmenistan. Rainfall averages 25 cm (9.7 in) a year.

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

The Kara Kum (Black Sea) desert covers most of the country, and there is little plant or animal life. Herders raise goats, camels, and sheep in the desert. Farmers use reservoirs for irrigation to grow crops not indigenous to the area.

## <sup>5</sup>ENVIRONMENT

The most significant environmental problems in Turkmenistan include salinization of the soil and water pollution. The nation's water supply is threatened by chemical contaminants from farming activity. The problem is complicated by a lack of adequate sewage treatment facilities. A large share of the Amu Darya River's flow is diverted for irrigation, decreasing its contribution to the water supply from the Aral Sea. Water cycles have also affected the Garabogazol Aylagy, a lagoon-like appendage in the northwest that adjoins the Caspian Sea. It became fully enclosed because of a drop in the volume of the Caspian Sea, but is starting to rise again as the sea returns to previous levels. As of 2001, 4.1% of the country's total land area was protected. Eleven mammal species, 12 bird species, and 13 plant species are threatened. Threatened species include the cheetah, tiger, Aral salmon, slender-billed curlew, and white-headed duck.

## <sup>6</sup>POPULATION

The population of Turkmenistan in 2003 was estimated by the United Nations at 4,867,000, which placed it as number 113 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 38% 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 1.54%, with the projected population for the year 2015 at 5,820,000. The population density in 2002 was 12 per sq km (30 per sq mi).

It was estimated by the Population Reference Bureau that 45% of the population lived in urban areas in 2001. The capital city, Ashgabat, had a population of 525,000 in that year. Other large cities include Chardzhou (164,000), Tashauz (114,000), Mary (94,000), and Nebit-Dag (89,000). According to the United Nations, the urban population growth rate for 2000–2005 was 2.1%.

## 7 MIGRATION

Emigration to other former USSR republics exceeded immigration by 20,600 during 1979–90. More than 40,000 people fled from Tajikistan to Turkmenistan in 1992 to escape civil war. Repatriation of the Tajik refugees started in early 1998. As of 1999, nearly 5,000 Tajik refugees had voluntarily repatriated. There were also some 13,000 Tajik refugees, mostly ethnic Turkmen, who expressed the desire to remain in Turkmenistan. Also in 1999, UNHCR was assisting a group of some 1,000 Afghan refugees to integrate locally. UNHCR also developed a contingency planning and emergency preparedness mechanism in order to handle potential future refugee influxes.

Between 1993 and 1995, 100,000 Russians left Turkmenistan. In 2000 there were a total of 223,000 migrants, including 14,200 refugees, living in Turkmenistan. The net migration rate was 2.2 migrants per 1,000 population in 2000. The government views the immigration level as satisfactory, but the emigration level as too high.

## 8 ETHNIC GROUPS

There are over 100 distinct ethnic groups living in Turkmenistan. According to the 1995 census, 77% of the population consisted of ethnic Turkmen. That year, Uzbeks accounted for 9.2% of the population; Russians, 6.7%; Kazakhs, 2%; Ukrainians, 0.5%; and Armenians, Azeris, Tatars, and Beluji, 0.8%. Other groups present include Belarusians, Germans, Jews, Georgians, Moldovans, Uighurs, and Koreans. Like the Turkmen, the Uzbeks, Kazakhs, and Azeris are Turkic-speaking peoples.

## 9 LANGUAGES

Turkmen, spoken by about 72% of the population, is mandatory in the schools. It is a Turkic language of the Oghuz group, related to Azeri, Turkish, and Uzbek. Prior to the Soviet era, Turkmen wrote their language using the Arabic script. In Turkmenistan, that script was changed to Latin and then Cyrillic before World War II. The government has begun to institute the Latin script again. The Turkmen language has been influenced by Persian and Arabic elements. In recent decades, many borrowed words from Russian also have been adopted. Russian remains in common use in government and business, and is spoken by 12% of the population. Uzbek is spoken by 9%; various other languages are spoken by 7%.

## 10 RELIGIONS

There is no state religion, but about 89% of the population is Muslim, primarily Sunni, with strong elements of local shamanism and Sufi mysticism included in its practices.

Although the constitution provides for religious freedom, the Law on Freedom of Conscience and Religious Organizations, which was amended in 1995 and again in 1996, also provides for significant government control of religion. For example, religious congregations are required to register with the government in order to hold gatherings and proselytize. A congregation must have at least 500 members within the locality in which it is registering. This restriction has caused problems for a number of minority religions, especially the Baha'i faith. Baha'is have been prevented from conducting services since 1997 and have been questioned by Interior Ministry authorities for holding private prayer meetings in their homes. They were permitted to gather in Ashgabat for a single day to celebrate the Nowruz (spring) holiday in March 1998 and again in 1999.

As of 2002, the only two religions that were officially registered were Sunni Islam and Russian Orthodox Christianity.

In January 1999, members of the Gregorian Armenian faith appealed to authorities to use a church pending their registration, but they have not yet received a reply. Jehovah's Witnesses filed an application for registration in January 1997 but remain

unregistered, pending correction of mistakes in their application. Subsequent efforts to worship at meetings in their homes resulted in fines and seizures of religious materials.

Ethnic Turkmen, Uzbeks, and Kazakhs are nominally Sunni Muslim. Ethnic Russians, who account for about 7% of the population, are largely members of the Russian Orthodox Church. There are small communities of Roman Catholics, Pentecostal Christians, Seventh-Day Adventists, Baptists, Hare Krishnas, Lutherans, and Jews; however, none of these faiths are legally able to maintain churches.

## 11 TRANSPORTATION

Nebit-Dag, Ashgabat, Mary, and Chardzhou are connected by railroad to the nation's main port of Turkmenbashi on the Caspian Sea. Other lines include a railroad from Mary along the Murgab and Kushka rivers to Afghanistan and a line from Chardzhou along the Amu Dar'ya which nearly parallels Uzbekistan's border. Smaller rail spurs are located at Tashauz and Kerki. Rail lines were estimated at a total of 2,440 km (1,498 mi) in 2002. Also in 2002, there were an estimated 22,000 km (13,671 mi) of roadways, of which 18,000 km (11,185 mi) were hard-surfaced. In 2001, Turkmenistan had 76 airports, of which 13 had paved runways. In 2001, 1,407,400 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The territory of present-day Turkmenistan has been inhabited since the Stone Age, with evidence of agricultural communities as early as 6000 BC and of planned irrigation works from 3500 BC. The first states were Margiana and Parthia, from about 1000 BC. In 7th–6th centuries BC, Margiana was part of Bactria, while Parthia was part of the Median state. In the 6th–4th centuries BC the region was ruled by the Achaemenids, who were conquered by Alexander the Great at the end of the 4th century. In his wake there emerged a Parthian Empire which lasted until AD 224, when Persians of the Sassanid dynasty seized the territory. In the 5th century much of Turkmenistan was conquered by Ephthalites, who in turn were conquered in the 6th century by the Tiu-chue nomads, of Turkic origin. The Arab caliphate conquered Turkmenistan in 716, and began to introduce Islam. In the 10th century part of Turkmenistan was under Samanid control.

Oghuz Turks began to migrate into Turkmenistan in the 9th century. In 1040 the Seljuk clan took control of the territory, and held sway until the 13th century, when Turkmenistan was part of the Khwarazm-Shah state. The entire region was conquered by Mongols in 1219–1221, and Turkmenistan was split between the Golden Horde and the Chagatai Khanate, as well as the Hulaguid Khanate of Persia.

In the 1380s Turkmenistan became part of the empire of Timur (Tamerlane). By the 16th century part of the territory was ruled by the Khiva Khanate, part by Bukhara, and part by Persia. The course of the Amu Dar'ya river changed, and the Kara Kum desert claimed a great deal of once arable land.

Russia began to make commercial contacts with the Turkmen as early as the 16th century; by the 18th century almost all trade between Europe and Central Asia passed through Turkmenistan. Local tribes were used diplomatically by the Persians, Russians, and British as part of the Great Game of the 18th and 19th centuries. Beginning in 1865, Russia undertook direct annexation, which because of heavy resistance by the Turkmen tribesmen was not complete until the 1885, making Turkmenistan the last portion of the Russian Empire to be conquered. The territory then was called the Transcaspian District.

Turkmen joined the uprising of 1916, when the Tsar attempted to draft Central Asians into work battalions, and remained in general rebellion throughout the period of the revolution and civil war. Muslim and nationalist opposition, whom the Russians



LOCATION: 40°0' N; 60°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,736 kilometers (2,322 miles); Afghanistan, 744 kilometers (462.3 miles); Iran, 992 kilometers (616.4 miles); Kazakhstan, 379 kilometers (236 miles); Uzbekistan, 1,621 kilometers (1,007.3 miles).

called *basmachi*, resisted the Bolsheviks until 1924, when the area was made part of the Trans-Caspian Republic. In 1925, the present-day territory became a Soviet Socialist Republic.

Throughout the Soviet period, Turkmenistan was the poorest and least assimilated of the republics. In 1985, longtime Communist Party boss M. Gapurov was fired by Mikhail Gorbachev, who picked Sapamurat Niyazov as new republic head. Niyazov has remained in power ever since. On October 27, 1990, Niyazov received 98.3% of the popular vote in an uncontested election to the new post of president of Turkmenistan. Turkmenistan declared independence on 27 October 1991. After independence, Niyazov won another uncontested presidential election in June 1992 with 99.95% of the vote. In a referendum in January 1994, he received the support of 99.99% of the vote for extending his term until 2002. An elaborate cult of personality has grown up around Niyazov, who now prefers the title "Turkmenbashi," or "chief of all Turkmen." Niyazov is president, supreme commander of the armed forces, first secretary of the Democratic Party of Turkmenistan, head of the quasi-legislative Khalk Maslakhaty (People's Council), and chairman of the Cabinet of Ministers and

the National Security Council. Changes to the Constitution were introduced in late December 1999 during a joint meeting of the Mejlis (legislature), the Khalk Maslakhaty, and Niyazov's National Revival Movement, to include naming Niyazov president for life.

Turkmenistan's "neutral" foreign policy is enshrined in its constitution. Niyazov has declared that Turkmenistan's "open door" or "permanent neutrality" policy precludes joining political or military alliances and entails good relations with the East and the West, though priority will be placed on relations with Central Asian and other Islamic states. Turkmenistan joined the Non-Aligned Movement in 1995, and the United Nations General Assembly in 1995 recognized Turkmenistan's status as a neutral state. Turkmenistan has pursued close ties with both Iran and Turkey. In addition to growing trade ties with Iran, Turkmenistan is also interested in cultural ties with the approximately one million Turkmen residing in Iran. Turkey is the largest foreign investor in Turkmenistan and has far surpassed Russia in trade turnover with Turkmenistan. Turkmenistan supports some of Russia's policies in the region while endeavoring, where possible, to resist, contravene, or reduce

Russian influence. Russian military and border troops assisted Turkmenistan until it built up its own forces, and Russia's presence has been used to counter Uzbek policies in the region. In 1993, Russia and Turkmenistan agreed that Russian border guards would work with Turkmen border guards under Turkmen command at borders with Iran and Afghanistan. In 1999, Turkmenistan canceled this agreement, and the last of Russia's 1,000 border troops in Turkmenistan left in late 1999.

The new country has abundant resources that could bring in ample export earnings, ranging from oil, gas, electricity, coal, aluminum, and cotton to wool, grapes, and carpets. Turkmenistan's main natural gas export pipeline runs through Russia, which has closely controlled the volume, price, and destination. Seeking alternatives, Turkmenistan in December 1997 opened a 125-mile gas pipeline to connect with the Iranian pipeline system. On 18 November 1999, Turkmenistan, Azerbaijan, Georgia, and Turkey signed a declaration on a trans-Caspian and trans-Caucasus gas pipeline territory that would deliver Turkmen gas to Turkey (expected to be completed in 2002 with an eventual capacity of sixteen billion meters per year), boosting chances for international financing for the pipeline. In December 2002, Turkmenistan, Afghanistan, and Pakistan signed an agreement to build a 1,500-km pipeline to carry gas from Turkmenistan's Dauletabad-Donmez field through Afghanistan to Pakistan.

In October 2001, Azerbaijan announced the planned trans-Caspian gas pipeline would not be realized. It had discovered its own huge gas reserves in Shahdeniz, and subsequently demanded a share of the exports to the amount of half of the trans-Caspian pipeline's capacity. Turkmenistan regarded such demands as contrary to its interests. In July 2002, an Azerbaijani tanker exploded in the Turkmen port of Turkmenbashi, killing six Azeri sailors. Some blamed the Turkmen government for the incident. Suspicions between the two governments ran deep in 2002, as mutual enmity between Azerbaijan's president Heydar Aliyev and Niyazov has made the gap between the ethnically close nations wide.

Following the 11 September 2001 terrorist attacks on the United States, Turkmenistan offered to aid the US-coalition in its military and humanitarian campaign in Afghanistan. Over one-third of all food aid reaching Afghanistan since 11 September transited Turkmenistan. The United States has stated that Turkmenistan can play a positive role in the rebuilding of Afghanistan.

On 25 November 2002, an assassination attempt was made on Niyazov. Following the attack on his motorcade, the Niyazov government began a wide investigation, and 61 people were arrested in connection with the assassination plot. Turkmenistan's National Assembly granted powers to the Supreme Court to administer "special punishment" to people found guilty of involvement in the plot. The resolution permits the Supreme Court to hand out life sentences to those convicted, with no possibility of amnesty, pardon, early release, or change of prison. Former foreign minister Boris Shikhmuradov was sentenced to life in prison for his involvement. As of January 2003, more than 30 people were given lengthy sentences by Turkmen courts, including at least three life sentences amid reports of torture and coerced confessions. The US State Department expressed concern with Turkmenistan's conduct of the investigations into the assassination plot, stating that while the United States recognized the government's right to apprehend those involved, the US government could not condone actions that violate international practice. The United States claimed the Turkmen government conducted summary trials of alleged suspects without due process of law, and cited credible reports of torture and abuse of suspects.

In January 2003, the Turkmen government announced parliamentary elections would be held on 6 April, nearly two

years ahead of schedule (elections had been scheduled for December 2004). Also in January, Niyazov ordered the forced relocation of ethnic Uzbeks living along the Turkmen border with Uzbekistan. He stated he wanted "unworthy people" to be moved from the border area and replaced with ethnic Turkmen.

### 13 GOVERNMENT

In May 1992, Turkmenistan became the first Central Asian republic to enact a post-independence constitution. It sets up a "secular democracy," and formally upholds the balance of powers between executive, legislative, and judicial branches, but in reality the republic is a presidential autocracy, under the control of President Niyazov. The executive branch of government is the responsibility of a prime minister and his cabinet, all of whom are appointed by the president. The republic's economy is centrally planned and controlled, as in Soviet times, giving the government wide powers. Niyazov issues edicts that have the force of law and appoints and removes judges and local officials. The constitution includes an impressive list of individual rights and safeguards (though not freedom of the press), but cautions that the exercise of rights must not violate national morality and public order, or damage national security.

The new constitution creates a People's Council (Khalk Maslakhaty) with mixed executive and legislative powers, consisting of the president, ministers, the fifty legislators of the Supreme Council (Mejlis), sixty "people's representatives," and others. The people's representatives were elected by district in a virtually uncontested vote in December 1992. The Khalk Maslakhaty serves as a forum and rubber stamp for the president's policy initiatives. Resurrecting pre-Soviet customs, a Council of Elders, hand-picked by Niyazov, was also created to advise the president and choose presidential candidates. Oppositionists complained that both these bodies were designed to stifle dissent. A new Mejlis of 50 members was elected in December 1994. The candidates were all nominated by Niyazov, ran unopposed, and most were members of his Democratic Party of Turkmenistan (DPT). The Mejlis routinely supports presidential decrees and has little legislative initiative.

Elections to the Turkmen 50-seat legislature (Mejlis) were held on 12 December 1999. Niyazov rejected a role for parties, stating that partisanship could lead to clan rivalries. Instead, he directed that nominating groups choose "professional" candidates, and they dutifully selected two candidates per constituency to run. There was no discussion of political issues or problems during the campaign. Prior to the race, Niyazov stepped up his repression of political and religious dissidents, and in late December pushed through a constitutional change naming Niyazov president for life. The OSCE refused to send monitors to oversee the elections, citing the government's control over the electoral process. In 2001 Niyazov published *Rukhname*, a spiritual guide that became an informal legal code for the country. It is a guide to Turkmen national cultural and ethical personal behavior. The lack of democratization in Turkmenistan was accentuated during the 11 April 1998 election of sixty unpaid "people's representatives" to the Khalk Maslakhaty. Turnout was reported at 99.5%, though some of the candidates ran unchallenged and no real campaigning or political party contestation occurred.

In August 2002, the Khalk Maslakhaty met for the first time in almost three years. It was not clear why the session was called.

### 14 POLITICAL PARTIES

The only legally registered party in the republic is the Democratic Party of Turkmenistan, which is what the Communist Party renamed itself in September 1991. Seeking to bring together most major cultural, religious, and public groups in a wider political bloc, in early 1994, Niyazov created a National Revival Movement, which he heads. Unregistered parties are tiny and have been severely repressed. Many of their leaders have been

forced into exile or arrested. Most significant is the “Agzybirlik” (Unity) popular front. Banned in 1990, it mostly consists of Turkmen intellectuals and backs democratization and ties to Turkey. Opposition figure Avdy Kuliye, former foreign minister, is in exile. Physician Pirkuli Tangrikuliyev announced that he wanted to create an opposition party and would run in the 1999 Mejlis election, but he was arrested and convicted of corruption. In late December 1999, a constitutional change was enacted naming Niyazov president for life.

In late 2002, opposition leaders and international observers said fissures were appearing in Niyazov’s regime and that frustration is growing among ordinary people. Opposition and human rights leaders met in Washington, D.C., Vienna, and Moscow, and identified what they called an “awakening of social consciousness” in Turkmenistan.

## 15 LOCAL GOVERNMENT

There are five large regional subdivisions, called *velayets*. Beneath these are *shekbers*, then *etraps*, then *ovs*. Velayets, shekbers, and etraps have executives called *vekils* who are appointed and dismissed by the president. In addition each administrative sub-unit has an elected assembly called a *gengeshchi*, the chairman of which is an *archyn*.

The clan system is said still to be very strong in Turkmenistan, and the velayets reflect distribution of the five major clans, whose totems are represented in the state flag.

## 16 JUDICIAL SYSTEM

The court system remains substantially similar to that which existed in the Soviet era. There are 61 district and city courts, 6 provincial courts (including one for the capital city of Ashkhabad), and a Supreme Court. A supreme economic court hears cases involving disputes between business enterprises and ministries. Military courts were abolished in 1997 and cases involving the armed forces are now tried in civilian courts. Decisions of lower courts are appealable to higher courts.

The constitution declares the establishment of an independent judiciary. In practice, the president’s role in selecting and dismissing judges compromises judicial independence. The president appoints all judges for a term of five years, without legislative review, except for the chairman of the Supreme Court.

Defendants in criminal cases are afforded a number of procedural due process rights, including the right to a public trial and the right to defense counsel. In practice, the government often denies these rights. There are few private lawyers. Defendants may petition the president for clemency. He has traditionally released large numbers of prisoners in periodically declared amnesties, though some political prisoners have appeared exempt from the amnesties.

## 17 ARMED FORCES

In 2002 the total armed forces consisted of 17,500 personnel. The army numbered 14,500 with equipment including 702 main battle tanks and 930 armored infantry fighting vehicles. The 3,000-member air force operates 89 combat aircraft. There are plans to form a navy in the future. The defense budget for 1999 was \$90 million or 3.4% of GDP.

## 18 INTERNATIONAL COOPERATION

Turkmenistan was admitted to the UN on 2 March 1992, and is a member of the Asian Development Bank, ESCAP, OSCE, ECO, IMF, UNESCO, WHO, and the World Bank. It is a member of the CIS, and is recognized by the United States, EU countries, and many other nations of the world. It has observer status with the WTO. The United States established formal diplomatic relations with Turkmenistan in February 1992.

## 19 ECONOMY

Turkmenistan, though one of the poorest and least developed of the former members of the Soviet Union, boasts rich deposits of oil, gas, potassium, sulfur, and salts. It is the fourth-largest producer of natural gas in the world with proven reserves of about 2.9 trillion cu m (101 trillion cu ft), and 17 new deposits discovered in the last 10 years. Proven oil reserves are 541 million barrels, with possible reserves as high as 1.7 billion. Despite this wealth of industrial raw materials, the labor force remains dominantly in agriculture, which, with forestry, generated an estimated 27% of the 2000 GDP. Turkmenistan is the world’s tenth-largest cotton producer. Industry contributes about 48% of the GDP and occupies 15% of the labor force.

Turkmenistan’s transition from a command economy to a free market economy was initially cushioned by its relatively low level of development, as well as by the central government’s plans for a gradual reform over a 10 year period with the state continuing to play strong directive and protective roles in the economy. In 2002, the Asian Development Bank (ADB) estimated that poverty incidence in Turkmenistan was lowest among the transitional economies of Central Asia. Extensive subsidies in a budget nearly 80% directed towards welfare services plus double digit GDP growth since 1999 have reduced absolute poverty to negligible levels. On the other hand, the slow pace of privatization and reliance on central directives has meant that much of the economy has not been exposed to market disciplines, and remains subject to the inefficiencies and distortions inherent in central controls. Although evidence suggests that living standards remain low and that structural development has been impeded, assessment is difficult because the government continues to treat economic statistics like state secrets.

Turkmenistan became independent in October 1991. The initial decontrol of prices resulted in a 90% increase in retail prices in 1991, followed by a megasurge of 800% in 1992. Contraction in output occurred mainly in industrial output while growth in the agricultural and transportation sectors—the latter particularly due to increased government investment—lessened the rate of decline in the overall economy. Enlarged subsidies, increased wages and family allowances, and the reinstatement of some price controls were used to offset the impact of rising prices and the potential for social unrest, particularly in light of the eruption of violence in Tajikistan and other former SSRs. In November 1993 Turkmenistan dropped out of the ruble-based monetary union and introduced its own currency, the Turkmeni manat. In the same month, Russia, on whose Gazprom pipelines Turkmenistan relied to take its natural gas to market, cut Turkmeni access to the hard currency markets of Western Europe, diverting its competitor’s gas instead to the cash-strapped markets of the Ukraine and the ex-SSRs of the Transcaucasus. The result was one of the worst bouts of hyperinflation experienced by one of the newly independent states. The manat, introduced at two to a dollar, was at 125 to the dollar before the end of 1994, with unofficial rates often three times as high. In November 1995, with inflation at over 1000% for the year and the Turkmeni government threatening to cut off gas to its late paying customers, an agreement was reached with Russia for the creation of a joint stock company TurkmanRosGaz (TRAO)—51% Turkmen, 44% Gazprom, and 5% Itera International Energy Corp. (U.S.)—whereby Gazprom would purchase and transport all the gas that Turkmenistan could sell to the Ukraine and the Transcaucasus countries. This did not solve Turkmenistan’s basic problem of getting hard currency export earnings to back its currency. Azerbaijan, Kazakhstan, and the Ukraine had all run up substantial gas debts. Aggravating the situation, a below average cotton harvest extended poor economic conditions into 1996, as inflation raged on at about 992% for the year. GDP continued its post-independence slide,

registering a decline in GDP of -8.2% in 1995 and -7.7% in 1996. Gross domestic product plunged further (-25.9%) in 1997 when Russia cut off access to its pipelines in a dispute over prices to be paid for Turkmeni gas. External debt, which had already increased 86.5% from \$401 million to \$750 million 1995 to 1996, jumped 136% to \$1.77 billion in 1997 as the government was forced to borrow to cover shortfalls in export payments. More promising were the effects of reforms in monetary and fiscal policy adopted in 1996 and 1997.

Although not officially under an IMF program, the government voluntarily undertook to follow IMF recommendations about controlling credit expansion, reducing budget deficits, and liberalizing foreign exchange. From this point inflation began a steady retreat, falling to 84% in 1997, to about 20% in 1998 and 1999, to 14% in 2000, and to a reported 6% in 2001. However, internal evidence from the government's published figures suggest a resurgence of inflation in double digits in 2002. Another positive development in 1997 was the completion in December of the \$190 million, 24 mile Korpedzhe Kurt-Kui pipeline connecting Turkmenistan to the Irani gas pipeline system. In 2001 agreement was reached on a route whereby Turkmenistan gas could be delivered to Armenia through a still-to-be-built Iran-Armenian pipeline. Work on the Armenian section, after delays, is scheduled to begin in 2003, though it is not clear if the scheme will be exempt from US sanctions on countries dealing with Iran. A more ambitious project is the Trans-Afghanistan pipeline, called the Central Asia Gas Pipeline (or Centgas) that would run 1440 km (900 mi) from the Daulat Abad gas field in Turkmenistan through Kandahar, Afghanistan and end at Multan in Pakistan. The Centgas consortium was set up by Unacol in October 1997, but suspended 22 August 1998 in the face of a lack of success in obtaining funding, continuing civil war in Afghanistan (and opposition in the United States to Unacol negotiations with the unrecognized Taliban regime), and, finally, US cruise missile attacks against al-Qaeda training camps.

In May 2002, Turkmenistan led the reopening of discussions on the Trans-Afghan pipeline, now generally referred to as the TAP, and on 27 December 2003 the leaders of Turkmenistan, Pakistan and Afghanistan reached an agreement in principle to build the \$2.5 billion plus project. The ADB was enlisted to carry out a six-month feasibility study, and a summit is planned for September 2003 to put together the consortium that will build the TAP. In February 2003, the three TAP countries extended an invitation to India to join the project, estimated now to cost \$3.2 billion, apparently on the realization that its viability would depend on access to the Indian market. India, not wanting to work with Pakistan, did not accept the offer. A further cloud was cast over the TAP project by the death of the Afghani negotiator, its minister for mines and industries, in a suspect plane crash later in the month. In 2003 the future of the TAP depends on regional situation following the war in Iraq. In any case, the 1997 opening of the pipeline connection to Iran helped make 1998 the last year of post-independence decline in Turkmen GDP, which reportedly fell only 1% despite of the ongoing Russian financial crisis, although earlier reports had put this decline at closer to 11%. Decisive in restoring the economy to growth was the reopening of access to the Russian gas lines in 1998 following the resolution of their price dispute. There followed four years of double digit growth: 16% in both 1999 and 2000, 20.5% in 2001 and a projected 13% in 2002.

By the agreement reached with Russia in 1998, Turkmenistan was supposed export 20 billion cu m (706 billion cu ft) of natural gas to Russia by 2000 and increase this figure by 10 billion cu m (353 billion cu ft) per year until a level of 50–60 billion cu m (1,765–2,118 billion cu ft) was reached in 2004 or 2005. These levels have not been achieved and in 2003 Russia was seeking a new agreement with Turkmenistan. A condition accepted by the

Russians for the negotiation with some apparent reluctance was agreement that a coup attempt 25 November 2002 against President Niyazov, who now prefers to be called Turkmenbashi or Father of the Turkmen, was not staged as a means eliminating political opponents. The Turkmeni economy by US government estimates had reached about 70% of its preindependence level by 2001. The country's production of natural gas in 2001 was at about 60% of its preindependence level in 2001. Unemployment has apparently declined sharply during the last several years, dropping from 24% in 1998 to 14% in 2001, though this series of data incomplete. In the meantime, payments problems with gas customers have continued. In May 1999, Turkmenistan suspended natural gas exports to the Ukraine (for the second time) over arrears of \$281 million, and did not agree to restore supply until October 2000.

On 14 May 2001 Turkmenistan and the Ukraine reached an agreement for the supply of natural gas between 2002 and 2006 in exchange for 60% payment in cash and the rest in participation in 20 construction and industrial projects in Turkmenistan worth \$412 million. In May 2002, with the Ukraine still owing \$46 million in cash, President Niyazov expressed concern that work on the projects was progressing too slowly. In the meantime, cotton production experienced an unprecedented shortfall in 2002. Government planners had set an ambitious target of 2 million tons of cotton for the 2002 harvest despite the fact that the level had fallen from 1.3 million tons to 1.136 million tons (12.6%) from 2000 to 2001. To achieve the envisioned 80% increase the government agreed to sign contracts only with farmers achieving a yield of more than 30 centners (about 1.65 tons) per hectare. The area under cotton cultivation was to be reduced to 750,000 ha in 2002, having been expanded from 570,000 ha in 2000 to 770,000 in 2001. The plan called for 90,000 tons of cotton seed to be sown in 2002, down from 100,000 tons in 2001. The 2002 harvest in fact came in at only 500,000, 25% of the government's target and 56% below the previous year. A problem seems to have been an unusually wet spring, but the President Niyazov blamed "incompetent, irresponsible and dishonest officials," and dismissed a number of people from their jobs, including four regional leaders. The government's long-range targets for cotton 3 million tons of cotton by 2010 processed into 900,000 tons of cotton fiber.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Turkmenistan's gross domestic product (GDP) was estimated at \$21.5 billion. The per capita GDP was estimated at \$4,700. The annual growth rate of GDP was estimated at 10%. The average inflation rate in 2001 was 10%. 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 27% of GDP, industry 45%, and services 28%. Foreign aid receipts amounted to about \$13 per capita and accounted for approximately 1% of the gross national income (GNI).

Approximately 32% of household consumption was spent on food, 14% on fuel, 6% on health care, and 18% on education. The richest 10% of the population accounted for approximately 31.7% of household consumption and the poorest 10% approximately 2.6%. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that in 2001 about 34% of the population had incomes below the poverty line.

## 21 LABOR

From 1985 to 1991, the size of the labor force grew by 2.7% per year. Of an estimated two million inhabitants of working age in



1998, agriculture engaged 48%; industry and construction 15%, and the remainder in other sectors.

The right to form or join unions is not provided by law. As of 2002, there were no independent unions. The Federation of Trade Unions, now renamed the Colleagues Union, the government-associated organization of the Soviet era, is still present. In 2002, the union claimed 1.3 million members. Although Turkmen law does not protect the right to bargain collectively, strikes are allowed. State economic control is still prevalent, and little progress toward privatization has occurred.

The standard legal workweek is 40 hours. Many industrial workers often labor in unsafe conditions, and agricultural workers especially are subjected to ecological health hazards. The minimum working age is 16 years except for in a few heavy industries where it is 18. Violations of the minimum working age do occasionally occur in rural areas, especially during the cotton harvesting season. There is no set minimum wage. As of 2002, the average wage for public-sector employees was \$77 per month.

## 22 AGRICULTURE

About 30–35% of Turkmenistan is considered arable, but only 3.6% was under cultivation in 1998. Almost all the sown agricultural land is under irrigation. Yields are relatively low because of poor water usage, salinization, inefficient irrigation, and overdevelopment of cotton cultivation. In 2001, agriculture engaged 48% of the economically active population. Agriculture accounts for about 27% of GDP.

Cotton is the main crop, with production on the Mary and Tejen oases and along the Amu Dar'ya. Estimated cotton production for 2001/02 was 185,000 tons, up from 137,000 tons in 1996. Lack of machinery had caused significant portions of the cotton crop to go unharvested. Wheat also is cultivated to avoid dependency on unstable cotton export earnings. In 1999, estimated production was 1,506,000 tons. Citrus fruit, dates, figs, grapes, pomegranates, olives, and sugarcane are grown in irrigated groves and fields in the southwest. Sesame, pistachios, and oilseeds are other important export crops.

## 23 ANIMAL HUSBANDRY

The inability to raise sufficient fodder impedes livestock development. The livestock population in 2001 included sheep, 6,000,000; cattle, 860,000; goats, 375,000; pigs, 45,000; asses, 25,000; horses, 17,000; and chickens, 4.8 million. Karakul sheep are raised for wool export; in 2001, 21,000 tons of greasy wool and 25,000 tons of sheep skins were produced. A private tannery in Mary processes about 100,000 sheepskins per year, selling its product to the state-run leathery factory.

Akhaltekin horses, raised at the Akhaltekin oasis, are a breed which dates date to the 3rd century. Bucephalus, the favorite horse of Alexander the Great, was Akhaltekin. In 1986, an Akhaltekin horse, Dancing Brave, was sold for \$50 million. Akhaltekings have a large share of the racehorse breeding market worldwide, and are depicted on Turkmenistan's national emblem.

## 24 FISHING

The Caspian Sea provides fishing resources; fishing is an important export activity. In 2000, the total catch was 12,228 tons, primarily Azov sea sprat.

## 25 FORESTRY

About 8% of the land is forested. Arid conditions and the expansive Kara Kum desert inhibit the development of commercial forestry.

## 26 MINING

Turkmenistan had the world's third-largest reserves of sulfur, and was a leading producer of natural gas. Its top industries in 2002 were the production of natural gas, oil, and petroleum products;

gas and oil accounted for 33% and 30%, respectively, of its export earnings in 1999, and 90% of foreign direct investment went into the oil and natural gas sectors.

In 2000, outputs included: sulfur (mined at the Gaurdak complex, in the Gora deposit), 9,000 tons; gypsum, 150,000 tons (169,577 in 1996); sodium sulfate (from an extensive mirabilite site in the Garabogazköl), 60,000 tons (30,820 in 1996; supplying 45% of the FSU's production); iodine, 150,000 tons (90,000 in 1998 and 34,600 in 1996); and nitrogen (content of ammonia), 75,000 tons. Turkmenistan also produced bentonite, bentonite powder, bischofite, cement, all of the FSU's supply of epsomite, ferrous bromide, lime, and salt (north of Nebitdag).

Ozocerite, iodine, and bromine were found on the Cheleken Peninsula and in Vyshka, Stantsiya. The Garabogaz Aylagy lagoon, off the Caspian Sea, was one of the world's largest sources of raw materials for the chemical industry; commercial interest in the salts of the region began at the end of the 19th century, and it supplied all of the FSU's supply of medicinal Glauber's salt. Other mineral deposits included potassium and polymetallic ores.

## 27 ENERGY AND POWER

Turkmenistan is essentially self-sufficient in energy resources, with natural gas by far the most plentiful resource. Proven reserves of natural gas are among the world's largest; in early 2002 they amounted to 2.9 trillion cu m, or about 2% of the world's total. Production in 2001 (excluding gas-flared or recycled) totaled 46.5 billion cu m. Natural gas is found primarily near Mary; these fields in south-central Turkmenistan account for 80% of annual production. Turkmenistan is a major exporter of natural gas to the former USSR, and is the only republic, besides Russia, to export to Europe. Several former Soviet republics now owe significant amounts of money to Turkmenistan, including Ukraine, Georgia, Kazakhstan, Uzbekistan, and Azerbaijan. In October 2000 Turkmenistan agreed to resume gas exports to Ukraine, which had been interrupted since spring of 1999 because Ukraine had owed \$281million at that point. Turkmenistan is developing alternatives to Russia's pipeline network as part of its strategy to increase natural gas exports. About 49% of primary energy consumption was fueled by natural gas in 1998, with the remainder coming from oil. In 2001, Turkmenistan's total installed electrical capacity was 3,930,000 kW. In 2000, net electricity generation was 9.3 billion kWh, of which more than 99% came from fossil fuels. In the same year, consumption of electricity totaled 7.7 billion kWh.

Oil is produced in small quantities in the west, on the Cheleken Peninsula, near Nebitdag and Kum Dag, and along the Caspian lowlands. Proven oil reserves totaled 546 million barrels at the beginning of 2002. In 2001 production amounted to about 159,000 barrels per day. A ten-year program was in place to raise production to almost 1 million barrels per day by 2010. Refining capabilities are limited and antiquated; both refineries are slated for modernization and expansion to help meet increased demand.

## 28 INDUSTRY

After growing at an average rate of 2.3% during the 1980s, the industrial sector declined after the breakup of the Soviet Union. Industrial output declined by 15% in 1992, and fell 25% in 1994 when it became clear that Turkmenistan gas exports were going to be diverted from hard currency markets, and therefore from external sources of capital finance. After a further decline of 7% in 1995, gross industrial output reportedly surged ahead 17.9% in 1996, despite a 7.7 decline in the wider economy, as agreements were reached for gas supplies to the Ukraine and the Transcaucasus. However, in 1997 deepening financial problems stemming from Russia's cutoff of Turkmenistan's access to its Gazprom lines over a price dispute, arrears in payments from its ex-Soviet customers, and declines in cotton processing helped to

produce a fall in industrial production of 29.3%. From this low point, however, industrial output has expanded consistently. In December 1997 the \$190 million, 124 mile Korpezhe-Kurt Kui pipeline connecting to Iran's gas pipeline system was completed, and in 1998 access was restored to the Gazprom's pipelines.

Industrial production increased 1% in 1998, damped by the effects of the Russian financial crisis, but then rose 16% in 1999, 29% in 2000, and 8% in 2001. Nevertheless, the Turkmenistan economy remains dominated by primary production—gas, oil and cotton—and there has been little privatization of medium and large enterprises that might promote industrial development. Industry as a percent of the GDP has declined over this period from 50% to 45%, and industrial workers as a percent of the labor force has declined from 19% to 15%. Economic reforms have been held back by the deliberately gradualist approach adopted by the government, which has left over 90% of economic activity in government hands. Industrial development is a secondary goal, subordinated to the primary objectives of gradualism, maintaining state leadership of the economy and maintaining a comprehensive welfare program. As part of the government's economic diversification policies, investment from the public sector and foreign exchange earnings have been used to build textile and garment manufacturing plants, often in joint ventures with Turkish partners. From 1995 to 2000 the share of the textile sector in total industrial production increased from 10.4% to 26%, while the share of cotton processed domestically rose from 3% to 35%. However, the commercial viability of these joint ventures is difficult to assess because of the implicit subsidies provided by the Turkmenistan government, multiple exchange rates, and incomplete data. Evidence is that in the shortfall in cotton production in 2002, where only a fourth of the government's target of two million tons was met, priority is being given to supplying Turkmenistan's textile industry over meeting export demand, even though cotton is an important foreign exchange earner.

Turkmenistan's leading industries are those related to its main raw material exports. Most of country's plants and infrastructure continue to rely on Soviet-style equipment and technology. The textile industry is dominated by large state-owned enterprises (SOEs). As of 1998, only 33 manufacturing enterprises had been privatized, including one knitting factory whose sales price of 43.3 billion manats (about \$8.2 million at official exchange rates) constituted over 40% of the value of all privatized assets. Turkmen carpets are known world wide for their quality and are a source of national pride: ornaments of Turkmen carpets are components of the national flag and the national emblem of Turkmenistan. They are sometimes erroneously identified in Western markets by the label "Bukhara," which is actually just the Uzbekistan city where the carpets are sold. Turkmen carpets feature deep red wool, with stylized geometric patterns.

Fuel-related production (mainly gas and oil) is the second-largest component of the industrial sector, accounting for about 22% of total sector output in value terms. Turkmenistan has two oil refineries and plans for building a third. The older one at Turkmenbashi (formerly Krasnovodsk) has a 116,500 bbl/d capacity and is currently undergoing a \$1.46 billion upgrade and modernization with financing from Germany and Japan. In April 2001, a \$300 million catalytic cracking unit was launched, engineered by France's Technip Geoproductions Company, and Iran's. The unit, with a capacity of 36,150 bbl/d, is designed to produce high octane gasoline, diesel fuel, heating oil and liquefied petroleum gas. Technip was also awarded a contract to build a lubricants and polymers to world standards. Turkmenistan's record, slightly larger, 120,150 bbl/d capacity Chardzou refinery at Seidi was not completed until 1991, but is also slated for modernization and expansion. The Chardzou refinery depends on Russian oil piped in from Western Siberia, and has been operating at about half capacity. In 2002, the president solicited

bids for a third 100,000 bbl/d refinery. Food processing (especially meat and dairy processing), construction materials, and electricity generation account for about 20% of total industrial output. Chemicals and machinery are other important manufacturing subsectors.

## 29 SCIENCE AND TECHNOLOGY

The Turkmen Academy of Sciences, headquartered in Ashkhabad, has 8 attached institutes concerned with natural sciences and technology. In addition, six independent institutes conduct medical research. In 1991, the Academy of Agricultural Sciences was established, and in 1992, the Academy of Medical Sciences was created, both in Ashkhabad. The Turkmen A.M. Gorkii State University, founded in 1950 at Ashkhabad, has faculties of physics, mathematics, and biology. Also in the same city are the Turkmen Agriculture Institute, the Turkmen Polytechnic Institute, and the Turkmen State Medical Institute (founded in 1932).

## 30 DOMESTIC TRADE

Like the rest of the Turkmenistan economy, much of the country's retail and wholesale sector remain under the control of the central government. However, informal markets also operate in the country, at which a wide variety of consumer goods, including food, clothing and household wares, may be purchased. In 1994, the government established the State Commodity and Raw Materials Exchange as a means to regulate all trade and to restrict foreign competitors from controlling the market during the economic transition to a free market economy. Domestic trade involving locally produced goods is free from government regulations. Distribution of these products is generally facilitated through a state wholesale network. Most transactions are conducted only in cash. A value-added tax of 20% applies to most goods and services. Commercial advertising is under government control.

The work week is from 9 AM to 6 PM, Monday to Friday, with an hour for lunch. Many government officials and businesses regularly work on Saturday.

## 31 FOREIGN TRADE

Like other Central Asian countries, Turkmenistan is highly trade dependent. While natural gas and processed cotton fiber are the country's most important export items, Turkmenistan is heavily dependent on imports for industrial equipment, industrial raw materials, and a number of basic food items such as grain, milk and dairy products, potatoes, and sugar. Agricultural products, of which cotton makes up the vast majority, accounted for about 9% of total exports in 2000, while mineral fuels brought in 81% of export receipts.

A disappointing cotton harvest in 1996 caused an 80% decline in cotton processing that year, but production has rebounded in the past few years. Continuing difficulties with gas export payments and use of Russian gas pipelines to reach the European market resulted in a decrease in that sector as well, but the problem seemed to be solved as 2000 production was at an all-time high.

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	1,029	255	774
Italy	401	7	394
Iran	242	91	151
Turkey	186	253	-67
Ukraine	165	214	-49
United Arab Emirates	61	63	-2
Azerbaijan	37	37	0
Uzbekistan	6	35	-29
Japan	n.a.	144	n.a.
France	n.a.	76	n.a.

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Turkmenistan's exports was \$2.7 billion while imports totaled \$2.3 billion resulting in a trade surplus of \$400 million.

The International Monetary Fund (IMF) reports that in 1997 Turkmenistan had exports of goods totaling \$774 million and imports totaling \$1.01 billion. The services credit totaled \$272 million and debit \$675 million. The following table summarizes Turkmenistan's balance of payments as reported by the IMF for 1997 in millions of US dollars.

<b>Current Account</b>	-580
Balance on goods	-231
Balance on services	-403
Balance on income	85
Current transfers	-31
<b>Capital Account</b>	-9
<b>Financial Account</b>	1,060
Direct investment abroad	...
Direct investment in Turkmenistan	108
Portfolio investment assets	-5
Portfolio investment liabilities	...
Other investment assets	206
Other investment liabilities	752
<b>Net Errors and Omissions</b>	-73
<b>Reserves and Related Items</b>	-398

### 33 BANKING AND SECURITIES

The State Central Bank of Turkmenistan (SCBT) is charged with issuing currency and executing a monetary policy, and represents the top tier of a two-tiered banking system. Commercial banks are responsible for collection, settlement, and handling of assets for clients and other banks. The State Bank for Foreign Economic Activities has been established to provide hard currency credits for foreign economic activities.

The government has not released details of monetary policy since Turkmenistan left the ruble zone in November 1993. The currency reform involved a high degree of confiscation. Since then, the government is thought to have severely contracted the money supply in real terms as part of its bid to tackle inflation.

The banking decree of 20 February 1995 stated that: 75% of 1994 bank revenue was to be used for capital expenditure projects; banks were to lend to state-owned firms at an annual interest rate of 15%; and all excess bank profits were to be transferred to the state. Turkmenistan's banks are shackled with the usual problems of the former communist bloc. The Turkmen banks are poorly capitalized, have large loss-making portfolios to state-owned enterprises, and are burdened by an antiquated payments system which builds up arrears with ease.

Sberbank (the State Savings Bank) ranks second behind the SCBT in significance, holding most household deposits, and is still state-owned. The local branch of Vneshekonombank has been incorporated as an independent foreign trade bank, and is also state-owned. Investbank is the industrial sector bank and Agroprombank the agricultural sector bank. Both are state-owned via stock distributed to state-owned enterprises. In 1994, there were ten further banks owned by state enterprises, two cooperative banks and two private banks.

### 34 INSURANCE

The joint-stock insurance company "TIS" is operating direct insurance lines for aviation, cargo, fire, accident, and auto in Ashgabat.

### 35 PUBLIC FINANCE

Although still a centrally planned economy, Turkmenistan has slowly begun to decrease the size of the public sector's influence.

Among the steps it has taken are a drive toward a unified market-based exchange rate, the allocation of government credits by auction, and stricter limits on budget deficits.

The US Central Intelligence Agency (CIA) estimates that in 1999 Turkmenistan's central government took in revenues of approximately \$588.6 million and had expenditures of \$658.2 million. Overall, the government registered a deficit of approximately \$69.6 million. External debt totaled \$2.3 billion.

### 36 TAXATION

Turkmenistan has significantly lowered income tax rates in 2002. The top rate is 11%, down from 25% in 2000, and 40% in the 1990s. The marginal rate for the average taxpayer is also 11%. The top corporate rate is 25%, down from 45%. A 15% rate is charged on income from dividends, copyrights, licenses, leases, royalties and other forms of passive income, although investors holding more than 30% of hard currency shares in an enterprise's capital fund are exempt from the dividend tax. Enterprises are not required to pay the profit tax until investors have fully recovered their original investment. Also, companies that reinvest profits are exempt from tax payments on the reinvested capital. Equipment contributing to the capital of joint ventures is exempt from import duties. Free economic zones have been created to attract foreign capital. There is a value-added tax (VAT) imposed on all goods and services, sold or bartered, of 10% for foodstuffs and 20% for all other items. In March 1994, the president exempted from the VAT registered foreign investors, private enterprises (other than Turkmenpotrelsoyuz enterprises) and businesses importing and selling consumer goods.

### 37 CUSTOMS AND DUTIES

Technically, Turkmenistan does not levy tariffs except on imports by individuals. However, in practice, the excise tax system applies higher rates to imported goods than domestic, effectively putting an unspoken tariff in place. Additionally, certain domestic products are exempted from the value-added tax (VAT) and, by special presidential decree, government regulatory agencies have the power to go into certain markets and determine the prices of domestically produced goods and the prices for which importers pay for foreign products. Certain imports from countries outside the rural area are prohibited or require a license. Turkmenistan is not a member of any free trade agreements and is not a member of the Commonwealth of Independent States customs union. It has signed trilateral agreements with Iran and Ukraine, Iran and Armenia, Iran and Bangladesh, and Iran and the Philippines and is pursuing more such agreements. Turkmenistan has most-favored nation status with the United States and Austria. Duties run from 10% to 100%, the average being 30%.

### 38 FOREIGN INVESTMENT

A law on foreign investment and other legislation regarding private entrepreneurship passed since 1991 now provide most of the conventional guarantees to foreign investors in Turkmenistan. However, until 1994, the purchase of property by foreign parties remained highly restricted. Reflecting some of this ambiguity, by 1992, only 23 joint ventures had been established, most of a relatively small scale and with negligible impact on foreign trade. Nevertheless, the country's political stability, rich natural resources, and increasingly liberal regulations are likely to make it a favored target for foreign investors in the near future. Significant inflows of foreign assistance have already allowed expansion of the petroleum industry to begin. Negotiations with foreign firms and several countries are underway for establishing a liquefied natural gas plant and the joint construction of a new gas pipeline to Europe that would bypass the need to transverse potentially unstable states of the former USSR.

In 1994, Turkmenistan's laws were modified to offer greater protection for property and rights of foreign investors and

exemptions from duties and taxes for specific categories of investment; foreign investors registered in Turkmenistan, and enterprises importing and selling consumer goods there have been exempt from the value-added tax since March 1994. The Commodity and Raw Materials Exchange, created in 1994 to regulate all commercial transactions in Turkmenistan, registers individual trade contracts concluded by foreign companies and joint ventures, and charges a 0.2% commission. The State Agency for Foreign Investment (SAFI), established by presidential decree in 1996, monitors investments, reviews proposals and foreign currency credits, and may award priority status to projects favored by the government. There were no investment statistics reported by the government in 1998.

### 3<sup>9</sup> ECONOMIC DEVELOPMENT

Turkmenistan's president Niyazov, or Turkmanbashi (Father of the Turkmen) as he has increasingly insisted on being called, has spoken of his country becoming the next Kuwait after its independence in 1991, with the state funding a high standard of living, a comprehensive welfare program, and industrial development from the invested proceeds of state-owned natural gas, oil and cotton operations. To date this vision has founded on Turkmenistan's geographical and political isolation from hard currency markets for its exports, a position that help produce, after an initial soft landing in 1992, to produce a sharp decline in economic activity, hyperinflation, and increasing external debt 1993 to 1998. Although official statistics show double-digit growth since 1999 and inflation reduced to a single digit by 2001 (6%), there is skepticism about the reliability of these statistics that the government treats like state secrets. The country does not submit economic information to the scrutiny of the IMF, which it has avoided by avoiding balance of payments problems (though not without difficulty judging from the harsh measures, including gas cut-offs, it has employed to get delinquent country's to pay their gas debts).

Turkmenistan's relatively well-educated population and natural resources provide a promising foundation for the growth of a diverse set of industries. The government's transition strategy consisted of three overarching principles: a gradualist (not big bang) pace to privatization and liberalization, a leading role for the state in developing the economy, and the maintenance of a full array of welfare supports to minimize the human costs of the economic transition. It is within these constraints that the government has pursued goals of food self-sufficiency and economic diversification.

The guiding principles of this program were detailed in a formal document in early 1991 calling for a series of legislative, fiscal, and monetary measures related to price controls, privatization, and industrial infrastructure development. More specific measures followed, including new laws on privatization and foreign investment adopted in 1992, price decontrol measures taken the same year, adoption of a value-added tax and other tax reform, and measures taken in 1996 and 1997 to control the growth of money supply. Under the liberalized property regime, leasing arrangements have expanded in both the agricultural and industrial sectors, though estimates are that as of 2002 there are no more than 100 private farmers in Turkmenistan. The leasing or purchase of individual enterprises by workers is favored by the current legislation, although land, water, and the oil and gas industries are excluded from the possibility of outright purchase by private individuals or companies. Public money and foreign exchange earnings have been used to establish textile and garment manufacturing plants, often as joint ventures with Turkish partners. The share of the textile sector in total industrial production has increased since independence from about 11% to about 26%, and the percent of Turkmenistan's cotton production processed domestically instead of exported has increased from 3% to 35%. However, it is

difficult to judge the competitiveness of these state-supported enterprises. Overall the gradualist pace in privatization has left over 90% of the economy by value under state control employing about 80% of the work force. Most medium and large industrial enterprises continue to run on the basis of centrally planned state orders and resource allocations, although there has been a substantial amount of privatization among small enterprises and in the service sector.

Following the government's expressed commitment to minimizing the negative impact of post-Soviet economic restructuring on the population, the terms for Turkmenistan's social safety net are more generous than many other former Soviet countries: allowances for large families, social security payments, and pensions have all been increased substantially since 1992, and as of 1993 all citizens were to receive free electricity and free water. Potential fiscal imbalances resulting both from these increased expenditures and the end of transfers from the Soviet government have thus far been avoided by increased profit transfers from key enterprises, export duties, and a variety of smaller revenue sources. Twenty-nine percent of the 1992 budget expenditures was allocated to price-differential subsidies paid to retail agencies required to sell food and medicines below wholesale prices. Capital expenditures claimed a further 12% of total expenditures while combined social and cultural expenditures allocated to education, health care, and social security totaled about 30%. In 2002, an estimated 80% of the government's budget is spent reinforcing the social welfare safety net. The Asian Development Bank (ADB) reports that the number of people in absolute poverty to be negligible in Turkmenistan.

Historically, landlocked Turkmenistan has depended on imports for most its food. Although there has been marked improvement in the government's prime target of wheat production since independence—total grain production, including wheat, rye, barley, corn, rice and miscellaneous grains, was 776 metric tons in 1992 whereas wheat alone had attained the government target of 1.2 metric tons by 1998—the goal has not been fully met. In recent barter deals with the Ukraine over past gas debts Turkmenistan has contracted for shipments of Ukraine wheat and sugar. In early 2002, the president backed away from a planned announcement that food self-sufficiency has been achieved, and in mid-2002 called on party officials to lead the way in pressing towards the goal by planting uncultivated hectares with wheat in their own estates.

A five-year production and investment plan set out in 1992 proposed large investments in the development of infrastructure and the energy sector financed by tax receipts and foreign exchange receipts from gas and cotton exports. The budget for 1993 included financing for projects to expand grain production and cotton processing. Under the government's central planning approach to economic development, the ambitious targets set have often not been met. The most recent setback was in 2002. Though the figures are disputed, annual cotton production was reported to have risen to a record 1.3 million tons in 2000, falling back to a still-substantial 1.03 million tons in 2001. The records reflected increased productivity, as the amount of land under cotton cultivation actually decreased. As a step in a long-range plan to achieve annual production of 3 million tons by 2010, the government set the goal of 2 million tons for 2002, an almost 100% increase. Incentives were given only to the more productive farmers, with actual decreases in the total area given to cotton and the amount of cotton seed made available. 2002 was an unusually wet, however, which caused some of the seed to rot in the ground and later impeded cotton picking. The result was a harvest of only 500,000 tons, one-fourth the official target and the lowest since 1996. In November 2002 the president, blaming "incompetent, irresponsible and dishonest" officials, removed many from office including a deputy prime minister, the minister

of agriculture and four regional leaders. In allotting its reduced cotton production, the needs of the newly expanded domestic industry appear to be given priority over exports, although raw cotton is an important foreign exchange earner.

The key to Turkmenistan's economic success rests on securing development finance through the exploitation of its natural gas resources. The completion of the Korppezhe-Kurt Kui Pipeline to the Iranian gas pipeline system in December 1997 plus restored access to Gazprom's pipelines in 1998 laid the basis for the economy's first return to growth since independence in 1999.

In 1998 the government restructured its oil and gas industries into several state-owned companies to better attract foreign investment. Progress has been made on two other gas pipeline schemes: the Iran-Armenian pipeline that would allow Turkmenistan to deliver its gas to Armenia, and the Trans-Afghanistan Pipeline (TAP), that, as originally envisioned, would pipe Turkmenistan gas across Afghanistan to Pakistan. Neither, however, is free of economic and political problems. Armenia remains a poor and uncertain market, particularly, as a source of hard currency, plus it is not clear if the arrangement would be exempt from US sanctions against countries dealing with Iran. In February 2003, representatives of the three main participants in the TAP project attempted to persuade India to agree to be the final terminus for Turkmenistan's gas apparently on the realization that neither Afghanistan nor Pakistan could, under present circumstances, provide markets large enough to justify the \$2 billion to \$3.5 billion cost of construction. India refused participation because of its conflicts with Pakistan. Later in the month, in another blow to the project, the Afghani negotiator, its Minister of Mines and Industries, Juma Mohammadi, died in a plane crash with four other Afghani officials as their light aircraft went down flying over Karachi. The three main participants set their next meeting on the TAP project for April 2003 in the Philippines. For oil, Turkmenistan's third major export earner, the president has announced a 10-year program to reach an output of one million barrels per day in 2010, up from only 159,000 barrels per day in 2001. The US Department of Energy currently forecasts Turkmenistan's oil production level in 2010 at only 200,000 barrels per day.

#### 40 SOCIAL DEVELOPMENT

Turkmenistan's current social security system was created in 1991, and provides old age, disability and survivor pensions to employed persons. A social pension is provided to those not eligible for employment-related pensions. Old age pensions are provided at age 62 for men who have 25 years of covered employment and at age 57 to women with 20 years of employment. The social security program is financed by 30% contributions from employers, and a voluntary contribution of 4% or more from employees. Unemployment benefits are provided for up to one year. Sickness and maternity benefits and workers' compensation were introduced in 1998. Maternity leave at full pay is provided for 112 days. Women are entitled to equal rights as men under the law, however due to societal constraints the woman's role is primarily that of homemaker and mother. Opportunities for education and careers outside the home are limited. Violence against women, including domestic violence, is not discussed and victims keep silent. Women are underrepresented in management positions in most state economic enterprises. Despite constitutional provisions, Muslims often follow religious practices giving men precedence over women in property and inheritance matters.

There are no international or domestic human rights monitoring groups operating in Turkmenistan. The government funds almost all print media and completely controls television and radio. Academic freedom and publishing are restricted. All forms of religious expression are controlled by the government.

According to most observers, Turkmenistan's human rights record is extremely poor. The US State Department's *Country Reports on Human Rights Practices for 2001* states that the government severely restricts political and civil liberties. Arbitrary arrest, detention, unfair trials, and interference with citizens' privacy and correspondence are reported. Security forces beat and mistreat suspects and prisoners. The government demolishes large numbers of private homes, and many displaced homeowners are not compensated for their loss. The government severely restricts freedom of speech and completely controls and censors the media, forbidding the expression of criticism of the government. In signing the Helsinki Final Act in 1992, Niyazov stated that human rights are defined and limited by Turkmen national interests, namely, law and order and political stability. On 14 September 1999, he denied that there have been political prisoners in Turkmenistan during his rule. According to the State Department's *Annual Report on International Religious Freedom for 2001*, Turkmenistan severely represses religious minorities. On 24 October 1999, Niyazov reported that Turkmenistan in 1998-99 had confiscated tens of thousands of "illegally" imported religious books and expelled "dozens of foreign visitors... for attempting to turn our people against our sacred beliefs." Suppression has included Christian faiths and others.

#### 41 HEALTH

As of 2000, systematic health care reforms had been undertaken, including enhancement of primary care, training programs for medical personnel, and infrastructure improvements. Serious inadequacies remained in the condition of medical facilities and equipment. Primary care was provided by two types of rural health units and by urban health centers. The number of hospital beds has been greatly reduced since independence. As of 1999 total health care expenditure was estimated at 5.2% of GDP. As of 1999, there were an estimated 3 physicians and 11.5 hospital beds per 1,000 people. In 2000, 58% of the population had access to safe drinking water and 100% had adequate sanitation.

Immunization rates for children up to one year old in 1994 were tuberculosis, 97%; diphtheria, pertussis, and tetanus, 87%; polio, 94%; and measles, 90%. As of 1999 the rates for DPT and measles were, respectively, 98% and 97%. The infant mortality rate in 2000 was 27 per 1,000 live births. The maternal mortality rate in 1998 was 65 per 100,000 live births. Average life expectancy was 66 years in 2000.

In this former Soviet republic, mortality rates have increased significantly since the breakup. Cardiovascular disease deaths numbered at 13,638 in 1994. Leading causes of death per 100,000 people in 1990 were communicable diseases and maternal/perinatal causes, 216; noncommunicable diseases, 737; and injuries, 68. There were 90 reported cases of tuberculosis per 100,000 people in 1999. Only one case of AIDS was reported in 1995. As of 1999 the number of people living with HIV/AIDS was estimated at fewer than 100, as were the number of deaths from AIDS. HIV prevalence was fewer than 0.01 per 100 adults.

#### 42 HOUSING

In 1989, 27.3% of all privately owned urban housing had running water, 7.2% had sewer lines, 16% had central heating, and 1% had hot water. In 1990, Turkmenistan had 11.1 sq ft of housing space per capita and, as of 1 January 1991, 108,000 households (or 30.9%) were on waiting lists for urban housing.

#### 43 EDUCATION

The adult illiteracy rate was estimated at 0.3% in 1995 (males, 0.2%; females, 0.4%). Before the Soviet Union established control over the region in the 1920s, few schools, mainly Muslim, existed. Education is now state-funded and compulsory from the age of 7 to 17 (10 years). Upon completion of the eighth grade, students are tested and then directed into technical, continuing,

or discontinuing courses of study. The government reports 1,764 schools with enrollment of 850,000. In 1,400 of the schools, instruction is in the Turkmen language; in the remaining 364, Uzbek, Russian, Kazakh, and Karakalpak languages are used.

In 1990/1991, all higher-level institutions had 76,000 pupils enrolled. There are 14 institutions of higher learning, including one university at Ashgabat, the Turkmen State University (founded in 1950) with an enrollment of over 11,000 pupils. Turkmenistan also has 90 technical colleges. As of 1995, public expenditure on education was estimated at 4.3% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The National Library of Turkmenistan in Ashgabat holds 5.5 million volumes and is the largest in the country. The Republican Scientific and Technical Library of Turkmenistan holds 900,000 volumes and the Turkmen Academy of Sciences, in the capital, holds 2.1 million volumes. Turkmen University has the nation's largest academic library, holding 542,000 volumes. There are several fine museums in Ashgabat, including the National Museum of History and Ethnography, the State Museum of Fine Arts, and the Carpet Museum, as well as museums devoted to history and literature.

#### 45 MEDIA

In 1997, there were some 363,000 main telephone lines in use, with an additional 4,300 cellular phones in use by 1998. Telephone links to other former Soviet republics and Iran are provided by land link or microwave and to other countries through Moscow.

Turkmen Radio in Ashgabat broadcasts transmissions from Moscow, as does Turkmen Television, which also receives Turkish television broadcasts. All broadcasts are controlled by the government. As of 1999 there was one radio station and three television stations. Many programs can be received from Russia and Turkey. Orbita and INTELSAT are received by satellite earth stations. In 2000, there were 256 radio sets and 198 television sets per 1,000 population. Turkmenistan has its own movie studio, Tukmenfilm. In 2000 there were 2,000 Internet subscribers, with access only available through the government-owned Turkmen Telecom.

There were two daily newspapers in 1995: *Turkmenistan* (circulation 73,170) and *Turmenskaya Iskra* (in Russian, 40,000). There are also a number of periodicals, mostly in Ashgabat.

The constitution provides for free expression, but in practice the government is said to severely limit press rights. The government owns and directly controls all radio, television, and print media, and is said to rarely allow criticism or opposition opinion in even the mildest forms.

#### 46 ORGANIZATIONS

The economic affairs and other concerns of workers are handled by the Chamber of Commerce and Industry, and the Federation

of Trade Unions of Turkmenistan, respectively. The most important mass movement in the country is the Communist Party. It controls all aspects of Turkmenistan's politics, society and culture. Its organizations of control are the Committee on National Security, Ministry of Internal Affairs, and various trade unions. The trade unions, all controlled by the state, serve to promote government production plans and policies. The Red Crescent Society is active in the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

Geological and archeological sites are primary tourist spots in this mostly desert state. In 1997, there were 332,425 tourists arriving in Turkmenistan spending \$74 million. The largest country of origin was Iran, with 171,071 visitors. Tourism has been designated a priority area of economic development. Hotel rooms numbered 2,616 with 6,571 beds and an occupancy rate of 24%.

In 2001 the US State Department estimated the cost of staying in Ashgabat at \$152 per day.

#### 48 FAMOUS TURKMENISTANIS

Saparmuryat A. Niyazov (b.1940) has been president of Turkmenistan since December 1991. Outstanding representatives of culture and literature of Turkmenistan include Abdulhekin Qulmukam Medoghli, a writer, researcher and political activist who was killed in 1937 during one of Stalin's purges, and the poet and thinker, Maktum Kuli, who first envisioned an independent Turkmenistan. The country has established the Makhtumkuli International Prize in his name and awarded it to President Niyazov.

#### 49 DEPENDENCIES

Turkmenistan has no territories or colonies.

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**CAPITAL:** Funafuti

**FLAG:** The national flag has the Union Jack in the upper quarter nearest the hoist; nine yellow stars on a light blue field are arranged in the same pattern as Tuvalu's nine islands.

**ANTHEM:** *Tuvalu mo te Atua (Tuvalu for the Almighty)*.

**MONETARY UNIT:** Both the Australian dollar (A\$) and the Tuvaluan dollar (T\$) of 100 cents are legal tender. There are coins of 1, 2, 5, 10, 20, and 50 Tuvaluan cents; 1 and 5 Tuvaluan dollars; and notes of 5, 10, 20, 50, and 100 Australian dollars. T\$1 = US\$0.61728 (or US\$1 = T\$1.62) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is being introduced, but imperial measures are still commonly employed.

**HOLIDAYS:** New Year's Day, 1 January; National Children's Day, first Monday in August; Tuvalu Day, 1 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays include Commonwealth Day (March), Queen's Official Birthday (June), and Prince of Wales's Birthday (November); movable religious holidays include Good Friday and Easter Monday.

**TIME:** Midnight = noon GMT.

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

Tuvalu (formerly the Ellice Islands) comprises a cluster of nine islands, plus islets, located in the southwestern Pacific Ocean just south of the Equator. These remote atolls are situated about 1,050 km (650 mi) N of Suva, Fiji, and 4,000 km (2,500 mi) NE of Sydney, Australia. They lie in a 595-km-long (370-mi) chain extending over some 1,300,000 sq km (500,000 sq mi) of ocean and have a total land area of 26 sq km (10 sq mi). Comparatively, the area occupied by Tuvalu is about 0.1 times the size of Washington, D.C. Tuvalu has a coastline of 24 km (15 mi).

Tuvalu's capital city, Funafuti is located on the island of Funafuti.

## <sup>2</sup>TOPOGRAPHY

Tuvalu consists entirely of low-lying coral atolls, none of which is more than 5 m (16 ft) above sea level; few of the atolls are more than 0.8 km (0.5 mi) wide. The islands are coral reefs on the outer arc of ridges formed by pressure from the Central Pacific against the ancient Australian landmass. On five islands, the reefs enclose sizable lagoons; the others are mere pinnacles rising abruptly from the ocean floor. Only two of the islands, Funafuti and Nukufetau, have natural harbors for oceangoing ships. There are no rivers on the islands.

## <sup>3</sup>CLIMATE

Tuvalu has a tropical climate with little seasonal variation. The annual mean temperature of 30°C (86°F) is moderated by trade winds from the east. Rainfall averages over 355 cm (140 in), with most rain falling between November and February. Although the islands lie north of the main cyclone belt, Funafuti was devastated in 1894, 1972, and 1990.

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

The surrounding sea is rich in flora and fauna, but land vegetation is limited to coconut palm, pandanus, and imported fruit trees. Pigs, fowl, and dogs, all of which were imported in the 19th century, flourish on the islands. The only indigenous

mammal is the Polynesian rat. Birds include reef herons, terns, and noddies. There are 22 known species of butterfly and moth.

## <sup>5</sup>ENVIRONMENT

Environmental dangers include uncontrolled spread of the crown of thorns starfish, which flourishes in deepened channels and is destructive to coral reefs; erosion of beachheads from the use of sand for building materials; and excessive clearance of forest undergrowth for firewood. About 40% of Funafuti is uninhabitable because the United Kingdom authorized the US to dig an airstrip out of the coral bed during World War II. Global warming and the related rise of sea levels are also a significant environmental concern for Tuvalu's residents. The encroachment of sea water also poses a threat of contamination to the nation's limited water supply, whose purity is already at risk due to untreated sewage and the by-products of the mining industry and farming. Natural hazards include earthquakes, cyclones, and volcanic activity.

In 1986, the government approved the first phase of an EC-financed sea-wall system to protect the coast. Current fishing methods threaten Tuvalu's marine life. The green sea turtle, hawksbill turtle, bay shark, and the leatherback turtle are endangered.

## <sup>6</sup>POPULATION

The population of Tuvalu in 2003 was estimated by the United Nations at 11,000, which placed it as number 192 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 34% 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 1.23%, with the projected population for the year 2015 at 12,000. The population density is high, with 386 residents per sq km (1,000 per sq mi) in 2002.

It was estimated by the Population Reference Bureau that 52% of the population lived in urban areas in 2001. The most populated island is Funafuti, the capital, with a 2002 population

of 6,000. Only about 15% of the population lives on Vaitupu, followed by Niutao (11%), Nanumea (11%), Nukufetau, Nanumanga, Nui, Nukulaelae, and Niulakita (formerly uninhabited). According to the United Nations, the urban population growth rate for 2000–2005 was 1.7%.

## 7 MIGRATION

During the 19th century, recruitment of Tuvaluans to work on plantations in other Pacific islands, Australia, and South America reduced the resident population from about 20,000 to 3,000; the islands have only recently recovered from the population loss. Migrants account for about 3% of the total population. The net migration rate was zero in 1999. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Apart from a few Europeans, the islanders are almost entirely Polynesian (96%) and have strong ties with the Samoans and Tokelauans. There is no evidence of pre-Polynesian settlement. Language and tradition indicate that the Tuvaluans were part of a Samoan-Tongan migration from the 14th through the 17th century.

## 9 LANGUAGES

English and Tuvaluan, a Polynesian tongue related closely to Samoan, are the principal languages. A Gilbertese dialect is spoken on Nui.

## 10 RELIGIONS

In 1865, a member of the London Missionary Society reached Tuvalu from Samoa, and Samoan pastors were sent to the islands. The Tuvaluans rapidly embraced the Christian faith, and today about 91% of them are Protestant members of the Church of Tuvalu, a congregationalist group. Seventh-Day Adventists account for 3% of the population; Baha'is for 3%; Jehovah's Witnesses for 2%; and Catholics for 1%. There are also small numbers of Muslims, Baptists, Mormons, and atheists.

## 11 TRANSPORTATION

Transportation is inadequate. Most roads are little more than tracks, although Funafuti has about 19.5 km (12.1 mi) of coral-impacted roads for use by the island's few cars and trucks. Funafuti and Nukufetau are the only seaports, used chiefly by freighters in the copra trade. Ships drawing up to 9 m (30 ft) can dock in Funafuti harbor at a deepwater wharf completed in 1980. In 2002, Tuvalu had a merchant fleet of 5 ships totaling 31,021 GRT. All the islands are served by Tuvalu's one inter-island ferry. Funafuti has one lone airport, a grass strip that cannot be used for jet aircraft.

## 12 HISTORY

The islands were probably settled between the 14th and 17th centuries by Polynesians drifting west with prevailing winds from Samoa and other large islands. The first European to discover Tuvalu is thought to have been the Spanish navigator Álvaro de Mendaña de Neyra, who sighted Nui in 1568 and Niulakita in 1595. Further European contact was not made until the end of the 18th century. Between 1850 and 1875, the islands were raided by ships forcibly recruiting plantation workers for South America, Fiji, Hawaii, Tahiti, and Queensland. To help suppress such abuses, the Office of British High Commissioner for the Western Pacific was created in 1877.

In 1892, after ascertaining the inhabitants' wishes, the United Kingdom proclaimed the Ellice Islands (as Tuvalu was then known), together with the Gilberts, as a British protectorate. After further consultation, the protectorate became the Gilbert and Ellice Islands Colony in 1916. After the Gilberts were occupied by the Japanese in 1942, US forces occupied the Ellice

group in 1943 and drove the Japanese out of the Gilberts. After the war, the ethnic differences between the Micronesians of the Gilberts and the Polynesians of the Ellice Islands led the Ellice Islanders to demand separation. In 1973, a British commissioner appointed to examine the situation recommended administrative separation of the two island groups. The British government agreed, provided that the Ellice Islanders declared their wishes by referendum. The vote, held during August–September 1974 with UN observers in attendance, produced an overwhelming majority of 3,799–293 for separation. Accordingly, on 1 October 1975, the Ellice Islands were established as the separate British colony of Tuvalu, and a ministerial system was instituted. Pursuant to a constitutional conference held at London in February 1978, Tuvalu became an independent member of the Commonwealth of Nations on 1 October 1979. Sir Fiatau Penitala Teo became Tuvalu's first governor-general, and Toaripi Lauti, chief minister at the time of independence, took office as Tuvalu's first prime minister. Following new elections in September 1981, Lauti was succeeded in office by Tomasi Puapua, who was reelected in September 1985. In March 1986, Tupua Leupena replaced Sir Fiatau Penitala Teo as governor-general. In a poll held that same year, Tuvaluans rejected the idea that Tuvalu should become a republic. As a result of the 1989 general election the parliament elected Bikenibeu Paeniu as prime minister in September 1989. In the same election, Naama Latasi became the first woman to serve in Tuvalu's parliament.

In the 1993 legislative elections Paeniu and Puapua, the man who he replaced as prime minister, each received six votes from the newly elected twelve-member parliament. A second round of votes were held in December that year, from which Puapua withdrew, and Kamuta Latasi was elected prime minister.

In 1994 Prime Minister Latasi spearheaded a movement to remove the British Union Jack from the country's flag as a symbolic gesture of independence. In 1995, after conservative French President Jacques Chirac announced his country's intention to conduct above-ground nuclear tests in the South Pacific, Tuvalu emerged as a regional leader in the highly vocal opposition.

In April 1997 the Union Jack was restored as part of Tuvalu's national flag by a vote of seven to five in the Parliament. Newly reelected Prime Minister Bikenibeu Paeniu restored the former flag design, which Latasi had changed without consideration of the views of Tuvalu's citizens. Tuvalu, Nauru, and Kiribati aligned with the Cook Islands and Niue to put pressure on Australian production of "greenhouse gases." These low-lying island nations are particularly vulnerable to future global warming. Already flooding in stormy weather, they pressed for a worldwide cut of 20% of 1990 emission levels by 2005. Australia rejected the proposal, citing 90,000 jobs would be lost if Australia was forced to reduce emissions. None of Tuvalu's islands rise more than 16 feet (5 m) above sea level, and their future existence may be imperiled.

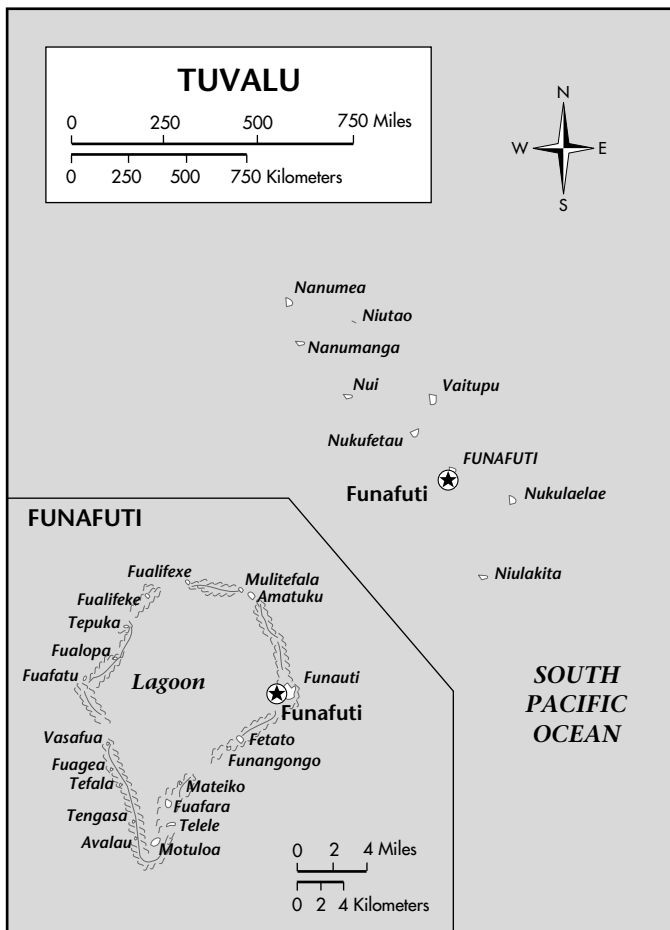
In 1998 Tuvalu began selling Internet addresses in its TV domain, i.e., all Tuvaluan Internet addresses end with the letters "tv."

By April 1999 there was growing dissatisfaction with Prime Minister Paeniu's leadership. Paeniu was forced to give up his office after a no confidence vote of parliament. On 27 April 1999 Ionatana Ionatana, former Minister of Education, was elected as prime minister by the twelve-member parliament.

In August 1999 Tuvalu sought economic aid as it suffered through a severe drought. Australia, New Zealand, Japan and Britain promised assistance to ease the water shortage with desalination plants. Japan agreed to provide the plants; New Zealand would pay to transport them. Australia would provide technical assistance toward formulating water policies.

Reportedly, Tuvalu licensed its dot-TV domain for \$50 million over ten years to an Internet incubator. In February 2000 Prime





LOCATION: 5° to 11° S; 176° to 180° E. TOTAL COASTLINE: 24 kilometers (15 miles).  
TERRITORIAL SEA LIMIT: 12 miles.

Minister Ionatana received the first installment of the licensing deal, \$20 million, and invested it in trust funds. In the continuing dispute with Britain over Tuvaluan separation with the Gilberts (Kiribati), Ionatana suggested that Tuvalu become a republic.

On 9 December 2000, Ionatana collapsed from cardiac arrest and died. Tuvalu had 4 prime ministers from 2000 to 2002. Faimalaga Luka, who was elected prime minister in February 2001, was replaced by Koloa Talake in December 2001 after a vote of no confidence. Saufatu Sopoanga became prime minister in August 2002 after general elections were held on 25 July. The elections and appointment of Sopoanga were expected to herald a period of stability in Tuvalu after Ionatana's death.

### 13 GOVERNMENT

Tuvalu is an independent constitutional monarchy. The head of state is the British monarch, whose representative on the islands is the governor-general, a Tuvaluan who has the power to convene and dissolve parliament (Sir Tomasi Puapua since June 1998). There is a unicameral legislature, the House of Assembly, with 15 members elected to four-year terms by universal adult suffrage. Seven islands elect two members each and one island elects one member. The cabinet is headed by the prime minister and has up to five ministers (all House members).

### 14 POLITICAL PARTIES

There are no political parties, and political life and elections are dominated by personalities. Small island constituencies with a

few hundred kin-related electors judge the leaders by their service to the community.

### 15 LOCAL GOVERNMENT

Local administration by elected island councils was established following the creation of the protectorate in 1892. Local governments were established on the eight inhabited islands by a 1966 ordinance that provided the framework for a policy aimed at financing local services at the island level. Funafuti's town council and the other seven island councils each consist of six elected members, including a president. Under the Falekapule Act of 1997, increasing power devolved from the central government to the island councils.

### 16 JUDICIAL SYSTEM

District magistrates were established with the protectorate in 1892, and a simple code of law based on mission legislation and traditional councils has been observed by native courts. Eight island courts were constituted in 1965 to deal with land disputes, among other local matters. In 1975 a High Court of Justice was set up to hear appeals from district courts. Appeals from the High Court may go to the Court of Appeals in Fiji and ultimately to the UK Privy Council in London.

The right to a fair public trial is respected in practice. Services of the public defender are available to all Tuvaluans free of charge. Defendants have the right to confront witnesses, present evidence, and to appeal. The judiciary is independent and free of governmental interference.

### 17 ARMED FORCES

Tuvalu has no armed forces except for the local police, which includes a maritime surveillance unit. For defense the islands rely on Australian-trained volunteers from Fiji and Papua New Guinea.

### 18 INTERNATIONAL COOPERATION

Tuvalu became a member of the Commonwealth of Nations on 1 September 2000, and the 189th member of the UN on 5 September 2000. Tuvalu cooperates with the South Pacific Forum, which it hosted in 1982. The country participates in the Asian Development Bank, belongs to the ITU, UNCTAD, UNESCO, UPU, WHO, and has associate or special status at the IFRCS and Intelsat. It is a member of ESCAP, an applicant to the WTO, and a signatory of the Law of the Sea. In 1979, Tuvalu signed a treaty of friendship with the United States, which in 1983 formally dropped its prior claim to four of the nine islands. Tuvalu opposes French nuclear testing in the South Pacific and signed the 1985 Rarotonga Agreement declaring the region a nuclear-weapons-free zone.

### 19 ECONOMY

Prime Minister Toaripi Lauti noted at the time of independence (1979) that all Tuvalu has is sun and a portion of the Pacific. Economic life is simple, but there is no extreme poverty. Subsistence is based on intensive use of limited resources, namely coconuts and fish; copra is the only cash crop. The islands are too small and too remote for development of a tourist industry. In 2002, there were fewer than 1000 visitors, most attached to international aid delegations. Its vulnerability to external shocks includes the real possibility that the nine low-lying coral islands that constitute the country could disappear beneath a rising ocean level as one of the effects of global warming. Already, thousands in this rather densely populated country have been displaced by ocean swamping parts of the land.

In the meantime, the economy has been kept afloat by two more fortunate developments: the success of the Tuvalu Trust Fund (TTF) and proceeds from the sale of Tuvalu's internet address, ".tv." The Trust Fund was set up in 1987 with A\$27

million derived from contributions from Tuvalu, Australia (the largest donor at A\$8 million), New Zealand, and the United Kingdom, with smaller grants from Japan and South Korea. Helped by occasional lump sum contributions from Australia, and modest withdrawals by Tuvalu, the TTF had grown to A\$37 million by 1999 and an expected A\$76.7 million by September 2002. The government derives about one-fourth of its revenues from returns on Trust Fund investments. More unique are the profits the government has been able to derive from its internet domain name. In 1990, the government leased the right to the suffix .tv to Idealab, a California company, for A\$90 million over 12 years, retaining a 20% share in the .tv Corporation. Some of the funds generated have been put in other investments and some have been used for infrastructure projects like airport development, electrification, and the construction of roads, office buildings and hospitals. The corporation .tv became a major shareholder in Air Fiji, which has exclusive flying rights to Tuvalu. In January 2002 .tv Corp. became a wholly owned subsidiary of VeriSign Corp., which bought it for \$45 million in an agreement by which Tuvalu maintains control of the management of its domain name. Returns from .tv Corp. have been highly variable—A\$14.5 million in 2002, but only A\$1.6 million in 2001; an expected installment of A\$10 million in 2002, but much less in 2003—presenting challenges for prudent budgeting.

The United Nations ranks Tuvalu among the least-developed countries.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2000 Tuvalu's gross domestic product (GDP) was estimated at \$12.2 million. The per capita GDP was estimated at \$1,100. The annual growth rate of GDP was estimated at 3%. Inflation averaged 3.73% from 1997–2001, but for 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.

## 21 LABOR

The estimated workforce numbered 7,000 in 2001. The economy relies primarily on subsistence ventures including fishing, and gathering coconuts. Many laborers work abroad and send wages home. In Funafuti, the government-controlled philately bureau is the largest single employer, with a staff of several dozen workers. The nation's only trade union, the Tuvalu Seamen's Union, has about 600 members who work abroad on foreign merchant vessels. The nearly 1,000 public employees in Tuvalu were not unionized as of 2002, but do belong to associations. The law protects the right to strike, but no strike has ever occurred.

The minimum working age is 14 (15 for industrial employment). Generally children do not work outside of the traditional economy. The minimum age for shipboard employment is 18. As of 2002, the biweekly minimum wage was \$75.66. The law sets the workday at eight hours. Basic health and safety standards, such as clean drinking water, are mandated by law but irregularly enforced.

## 22 AGRICULTURE

Although agriculture is the principal occupation, it contributes only 26% to the GDP. Agriculture is limited because of poor soil quality (sand and rock fragments), uncertain rains, and primitive catchment. Coconuts form the basis of both subsistence and cash cropping; the coconut yield in 1999 was about 2000 tons. Other food crops are *pulaka* (taro), pandanus fruit, bananas, and papayas.

## 23 ANIMAL HUSBANDRY

The Agricultural Division, based on Vaitupu, has attempted to improve the quality and quantity of livestock to lessen the islands' dependency on imports. Pigs and fowl, which were imported in the 19th century, have been supplanted by goats and rabbits. In 2001, there were some 13,200 pigs on the islands. Honey is also produced.

## 24 FISHING

Sea fishing, especially for tuna and turtle, is excellent. Although fishing is mainly a subsistence occupation, fish is sold in the capital, and *bêche-de-mer* is exported. The fish catch in 2000 was 400 tons, down from 1,460 tons in 1993. Japanese aid in 1982 provided a commercial fishing vessel for the islands. The Republic of Korea and Taiwan are both licensed to fish within the territorial waters of Tuvalu. In October 1986, Tuvalu, along with several other Pacific island nations, signed an agreement with the United States giving US tuna boats the right to fish its offshore waters. The sale of fishing licenses annually contributes about a \$80,000 to the government's revenues.

## 25 FORESTRY

There is little useful timber on the islands.

## 26 MINING

There was no commercial mining.

## 27 ENERGY AND POWER

International aid by UNDP and the European Development Fund is helping to develop electrical power. Funafuti has a limited amount of electricity to operate its meteorological and broadcasting stations and for use by the hospital and hotel; very few private households have electrical service. Installed electrical capacity totaled 2,600 kW in 1990. Both production and consumption of electricity amounted to 3 million kWh, or 330 kWh per capita, in 1995. The Tuvalu Solar Electric Cooperative Society, formed in 1984, provides a limited supply of photovoltaic electricity.

## 28 INDUSTRY

There is no industry apart from handicrafts, baking, and small-scale construction; the islands lack the population, capital, and resources to make commercial enterprises cost effective. In 1995, the latest year for which data is available, manufacturing accounted for 3% of GDP and construction about 14%. With the utilities sector, industry accounted for 19% of GDP. In recent years, construction has particularly benefited from the windfalls of money the government has through the .tv Corporation and related ventures.

## 29 SCIENCE AND TECHNOLOGY

There is no advanced science and technology except for that imported under foreign aid programs.

## 30 DOMESTIC TRADE

The local economy is based primarily on agriculture, which employs a majority of the resident population. Most residents of smaller villages and islands can grow or create their own necessary goods. Barter remains an important part of this subsistence economy. In larger communities, cooperative societies dominate commercial life, controlling almost all retail outlets, the marketing of local handicrafts, and the supply of fish to the capital. Offices are open from 7:30 AM to 4:15 PM, Monday to Thursday, and from 7:30 AM until 12:45 PM on Friday.

### 3<sup>1</sup> FOREIGN TRADE

Copra, the main cash crop, took many years to recover from the 1972 hurricane and has been affected by fluctuating market prices (although there is a subsidy to producers). Other exports include handicrafts and postage stamps. Most food, fuel, and manufactured goods are imported. Merchandise exports were valued at A\$276,000 in 1997, while imports amounted to A\$6.1 million that year. Tuvalu's principal trade partners are Fiji, Australia, New Zealand, and the United Kingdom.

### 3<sup>2</sup> BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 1998 the purchasing power parity of Tuvalu's exports was \$0.276 million while imports totaled \$7.2 million resulting in a trade deficit of \$6.924 million.

### 3<sup>3</sup> BANKING AND SECURITIES

The Bank of Tuvalu was founded in Funafuti in 1980 and has branches on all the islands. The bank is jointly owned by the Tuvalu government (75%) and by Barclays Bank, which was responsible for its operation until mid-1985.

In 1995, the government bought Westpac's 40% shareholding in the National Bank of Tuvalu and now owns the bank outright. Westpac has managed the bank since it was established in 1980 and is expected to provide an advisory support service.

### 3<sup>4</sup> INSURANCE

Insurance plays a minimal role in Tuvaluan life.

### 3<sup>5</sup> PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1989 Tuvalu's central government took in revenues of approximately \$4.3 million and had expenditures of \$4.3 million. Government jobs are the only steady and salaried jobs in the country. Government revenues comes from sales of stamps and coins, fishing licenses, income from the Tuvalu Trust Fund, and the lease of its highly fortuitous .tv Internet domain suffix.

### 3<sup>6</sup> TAXATION

Revenue is obtained principally by means of indirect taxation: stamp sales, the copra export tax, fishing licenses., telephone line leasing, earnings from the Tuvalu Trust Fund, and profits from .tv Corporation, the enterprise set up in 1990 through a leasing arrangement with Idealab, a California corporation, to market the country's internet address, .tv.

The personal income tax rate on chargeable income is 30%. The company income tax rate on chargeable income is also 30%, down from 40%. The income of both nonresidents and foreign resident companies is taxed at a flat rate of 40%. There are a variety of sales taxes applied to a variety of goods and services. Island councils also levy a head tax and a land tax based on territorial extent and soil fertility.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Since a single-line tariff was implemented on 1 January 1975, trade preferences are no longer granted to imports from Commonwealth countries. Tariffs, applying mostly to private imports, are levied as a source of revenue. Most duties are ad valorem, with specific duties on alcoholic beverages, tobacco, certain chemicals, petroleum, cinematographic film, and some other goods.

### 3<sup>8</sup> FOREIGN INVESTMENT

The cash economy is not sufficiently developed to attract substantial foreign investment. In 1981, the government established the Business Development Advisory Board to promote local and foreign investment in the Tuvalu economy; in 1993, the

board became the Development Bank of Tuvalu, the country's only commercial bank. UNCTAD reports that the annual flow of foreign direct investment (FDI) to Tuvalu for 1997 and 1998 was no more than \$100,000, zero for 1999, \$100,000 in 2000, and zero again in 2001. More important are the government's returns on its outward investments through the Tuvalu Trust Fund (TTF) and the .tv Corporation, returns on which are used to meet government expenses and invest in infrastructural development, lessening dependence on external aid. Profits from the .tv Corporation, for instance, were used to pay the country's UN dues, build a school and improve roads. The TTF is the leading source of revenue, regularly supplying about one-fourth of the government's budget, and is reported to have increased from its original A\$27 million capitalization in 1987 to over A\$75 million in 2002.

### 3<sup>9</sup> ECONOMIC DEVELOPMENT

Development aid, which rose rapidly during the 1960s, peaked at independence in 1979, when the United Kingdom undertook to provide £6 million. The Tuvalu Trust Fund (TTF) was established in 1987 with A\$27 million. The Fund receives contributions from Australia, New Zealand, the UK, Japan, Korea, and Tuvalu itself. The net income is paid to the Tuvalu government annually. As of September 2002, the Fund amounted to A\$76.7 million. In 1990, the government discovered a very profitable, if variable, source of income in leasing its internet domain address, .tv, to a California company, Idealab, and then retaining a 20% share in .tv Corporation that was established to market the suffix. Besides direct lease payments and dividends from its operations, the country stands to gain profits from other enterprises in which the corporation invests. The corporation, .tv, owns a major share, for instance, of Air Fiji which has exclusive rights on flights to Tuvalu. Unlike the prudently managed TTF, however, income from .tv Corp. is highly variable, presenting potential problems for rational budgeting. In 2001, revenue from the lease arrangement was A\$1.6 million while it had been A\$14.5 million in 2000, and a \$10 million installment is expected in 2002. Due mainly to income received by from Tuvalu fishermen working for non-Tuvalu operations, the country GNP's is considerably higher than its GDP. Fishing licenses are a major source of government revenue, amounting to A\$6.1 million in 2001.

In 2002, the government announced the Island Development Program (IDP) designed to reduce the disparity between household income on the main island, Funafuti, and the outer islands, and thereby slow the migration to the capital city. The program centers around the creation of a trust fund, the Falekanpule Trust Fund (FTF), modeled on the successful TTF. The FTF was capitalized at \$8.2 million contributed by the government and donor countries (principally New Zealand and Australia). Four types of policies are to be followed to achieve IDP goals: 1) decentralization of administration; 2) improvement of public service delivery; 3) promotion of small business development, and 4) a sustained augmentation of money available for the IDP through the prudent management of the FTF. In the first distribution of earnings from the FTF, the island councils were each given \$318,000 for development projects, and \$104,000 was allocated to a buffer account.

All development efforts in Tuvalu are overshadowed by the real possibility that an increase in global warming that ends up raising normal sea level could mean the disappearance altogether of the nine low-lying coral islands that constitutes the country. The government has consequently pushed hard on two fronts: urging industrialized countries to ratify and adhere to the Kyoto Protocol on limiting greenhouse gasses, and, in other countries, particularly, Australia, to have a plan for accepting displaced Tuvaluese.

## 40 SOCIAL DEVELOPMENT

Tuvaluans cling strongly to their traditional way of life. Villages are organized on a communal rather than a clan basis and have a customary system of social welfare. Young men's clubs and women's committees are standard features of social life, concerning themselves with sailing, fishing, crafts, and child welfare.

Women generally play a subordinate role within the family and society at large. Working women are primarily concentrated in the education and health sectors. Violence against women and domestic abuse are not widespread problems.

Human rights are well respected in Tuvalu. Serious crime is virtually nonexistent, and most prisoners are held for one night for offenses such as public drunkenness.

## 41 HEALTH

There are no serious tropical diseases on the islands except for a dwindling number of leprosy and dysentery cases. In 1990, there were 1.8 hospital beds per 1,000 people. In 1999 there were 0.3 physicians, 3 nurses, 0.9 midwives, and 0.1 dentist per 1,000 people. A large portion of Tuvalu's population had access to safe water (100%) and sanitation (85%) in 1993.

The infant mortality rate was estimated at 22 per 1,000 live births in 2002. In the same year, the fertility rate was an estimated 3.1 per 1,000 people. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 21.4 and 7.5 per 1,000 people. In 1995, the immunization rates for a child under one were as follows: diphtheria, pertussis, and tetanus, 82%; polio, 92%; measles, 94%; and tuberculosis, 88%. About 49% of children under one had been immunized for hepatitis B in 1995. The average life expectancy was estimated at 67 years.

Malaria was one of the most reported diseases in 1993, with 10,377 cases that year.

## 42 HOUSING

Most islanders live in small villages and provide their own housing from local materials. After the 1972 hurricane, Funafuti was rebuilt with imported permanent materials, but there is still a critical housing shortage on Funafuti and Vaitupu. Government-built housing is largely limited to that provided for civil servants.

## 43 EDUCATION

All children receive free primary education from the age of seven. Education is compulsory for seven years. The Tuvaluan school system has seven years of primary and six years of secondary education. Secondary education is provided at Motufoua, a former church school on Vaitupu now jointly administered by the government. In 1994, 1,906 students were enrolled in 11 primary schools. In 1990, secondary schools had 345 students with 31 teachers. Tuvalu Marine School was opened in 1979 with Australian aid. In the same year, the University of the South Pacific (Fiji) established an extension center at Funafuti.

## 44 LIBRARIES AND MUSEUMS

The first book published in Tuvalu was the Bible, in 1977. Apart from school facilities, the only library is the Parliamentary Library in Funafuti (600 volumes), which also houses the Archives.

## 45 MEDIA

In 1997, there were about 1,000 mainline telephones in use throughout the country. The government-owned Tuvalu Broadcasting Service, on Funafuti, transmits daily in Tuvaluan and also broadcasts news in English. In 2001, the only radio station in the country was owned by the government. There was also one government television station broadcasting about three hours per week. In 1997 there were 373 radio receivers in use per 1,000 population. Internet access is available through the management of the Office of the Prime Minister and the Department of Telecommunications.

There is no commercial press, but *Tuvalu Echoes* (2002 circulation, 250) is published biweekly by the government. Other local publications are produced by the churches or the government. The government is reported to respect freedom of speech and of the press.

## 46 ORGANIZATIONS

Apart from cooperative societies and local traditional bodies connected with island councils, there are few organizations. Organized youth groups include the Boy's Brigade, the Tuvalu Youth Fellowship and Pathfinder, and Girl Guide and Boy Scout troops. The Tuvalu Amateur Sports Association and the Pacific Red Cross are also notable. The National Council of Women of Tuvalu serves as an umbrella organization for women's cooperatives.

## 47 TOURISM, TRAVEL, AND RECREATION

Tuvalu's remoteness has discouraged tourism; the few visitors are on commercial or official business. In 1998, 1,077 tourists visited Tuvalu. That year there were 59 rooms in hotels and other facilities and tourism receipts totaled \$200,000.

The US State Department estimated in 1999 that the daily cost of staying in Tuvalu was \$97.

## 48 FAMOUS TUVALUANS

Tuvalu's first prime minister was Toaripi Lauti (b. Papua New Guinea, 1928).

## 49 DEPENDENCIES

Tuvalu has no territories or colonies.

## 50 BIBLIOGRAPHY

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- MacDonald, Barrie. *Cinderellas of the Empire*. Canberra: Australian National University Press, 1982.

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# UNITED ARAB EMIRATES

United Arab Emirates

*Al-Imarat al-‘Arabiyah al-Muttahidah*

**CAPITAL:** Abu Dhabi (Abu Zaby)

**FLAG:** The flag consists of a red vertical stripe at the hoist and three equal horizontal stripes of green, white, and black.

**ANTHEM:** The National Anthem is an instrumental piece without words.

**MONETARY UNIT:** The United Arab Emirates dirham (UD), introduced as the currency in May 1973, is divided into 100 fils. There are coins of 1, 5, 10, 25, and 50 fils and 1 and 5 dirham and notes of 5, 10, 50, 100, 200, 500, and 1,000 dirhams. UD1 = \$0.27337 (or \$1 = UD3.658) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system and imperial and local measures are used.

**HOLIDAYS:** New Year’s Day, 1 January; Accession of the Ruler of Abu Dhabi (Abu Dhabi only), 6 August; National Day, 2 December; Christmas, 25 December. Muslim religious holidays include Lailat al-Miraj, ‘Id al-Fitr, ‘Id al-‘Adha’, Hijra New Year, and Milad an-Nabi.

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

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

Comprising a total area of approximately 82,880 sq km (32,00 sq mi), including some 6,000 sq km (2,300 sq mi) of islands, the United Arab Emirates (UAE), in the eastern Arabian Peninsula, consists of seven states: Abu Dhabi, or Abu Zaby; Dubai, or Dubayy; Sharjah; Ra’s al-Khaimah, or Ra’s al-Khaymah; Fujairah, or Al-Fujayrah; Umm al-Qaiwain, or Umm al-Qaywayn; and ‘Ajman. Comparatively, the area occupied by United Arab Emirates is slightly smaller than the state of Maine. Extending 544 km (338 mi) NE–SW and 361 km (224 mi) SE–NW, the United Arab Emirates is bordered on the N by the Persian (or Arabian) Gulf, on the E by Oman, on the S and W by Sa’udi Arabia, and on the NW by Qatar, with a total boundary length of 2,185 km (1,358 mi), including a coastline of 1,318 km (819 mi).

In the late 1970s, Sa’udi Arabia and Qatar reportedly reached a boundary agreement according to which a narrow corridor of land was ceded by Abu Dhabi, thus allowing Sa’udi Arabia access to the Gulf near the Khawr Duwayhin and eradicating the former Qatar-UAE frontier. However, through 2002, no documents attesting to the accord had been submitted to the UN. The remainder of the boundary with Sa’udi Arabia is not yet fully demarcated. A 1999 border treaty with Oman was expected to go into effect in late 2002.

The UAE’s capital city, Abu Dhabi, is located on the Persian Gulf.

## <sup>2</sup>TOPOGRAPHY

The United Arab Emirates consists mainly of sandy desert. It is bounded on the west by an immense sebkha, or salt flat, extending southward for nearly 112 km (70 mi). The eastern boundary runs northward over gravel plains and high dunes until it almost reaches the Hajar Mountains in the Ra’s Musandam near Al ‘Ayn. The flat coastal strip that makes up most of the United Arab Emirates has an extensive area of sebkha subject to flooding. Some sand spits and mud flats tend to enlarge, and others enclose lagoons. A sandy desert with limestone outcroppings lies behind the coastal plain in a triangle between

the gravel plain and the mountains of the east and the sands of Sa’udi Arabia to the south. Far to the south, the oases of Al-Liwa’ are aligned in an arc along the edge of dunes, which rise above 90 m (300 ft).

The main gravel plain extends inland and southward from the coast of Ra’s al-Khaimah to Al ‘Ayn and beyond. Behind Ra’s al-Khaimah and separating Fujairah from the Persian Gulf is an area of mountains that rise over 900 m (3,000 ft) in height, with isolated cultivation. Finally, alluvial flats on the Gulf of Oman fill the bays between rocky spurs. South of Khor Fakkan (Sharjah), a continuous, well-watered fertile littoral strip known as the Batinah Coast runs between the mountains and the sea and continues into Oman. There are, in addition, many islands, most of which are owned by Abu Dhabi. These include Das, the site of oil operations, and Abu Musa, exploited for oil and red oxide.

## <sup>3</sup>CLIMATE

The months between May and October are extremely hot, with shade temperatures of between 38° and 49°C (100 to 120°F) and high humidity near the coast. Winter temperatures can fall as low as 2°C (36°F) but average between 17° and 20°C (63 to 68°F). Normal annual rainfall is from 5 to 10 cm (2 to 4 in), with considerably more in the mountains; most rainfall occurs between November and February.

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

Apart from cultivated plants, there are two categories of plant life in the United Arab Emirates: the restricted salt-loving vegetation of the marshes and swamps, including the dwarf mangrove, and the desert plant community, which includes a wide range of flora that is most abundant after the fall of rain.

Animal and reptile life is similar to that of Bahrain, with the addition of the fox, wolf, jackal, wildcat, and lynx. Hedgehogs have been seen. More than 250 species of small birds have been reported in the United Arab Emirates, along with many of the larger birds—kites, buzzards, eagles, falcons, owls, and harriers. Sea birds include a variety of gulls, terns, ospreys, waders, and

flamingos. Popular game birds include the houbara (ruffed bustard), as well as species of ducks and geese.

## 5 ENVIRONMENT

The clearing of natural vegetation, livestock overgrazing on rangelands, and extensive deforestation (in ancient times) have led to desertification. Overpumping of groundwater has brought a rise in soil salinity levels, and effluents from the oil industry have contributed to air pollution. In 1992, the United Arab Emirates ranked among 50 countries with the world's highest levels of industrial carbon dioxide emissions, which totaled 70.6 million metric tons, a per capita level of 42.28 metric tons. In 1996, the total rose to 81.8 million metric tons.

The nation has 0.2 cubic kilometers of renewable water resources, with 67% used for farming activity and 10% used for industrial purposes. The nation's cities produce an average of 0.5 million tons of solid waste per year.

As of 2001, the nation had two land areas protected by environmental legislation. The Al 'Ayn zoological gardens contain some 280 species of wildlife, including the gazelle, which had been on the verge of extinction in the region. In 2001, three of the country's mammal species were endangered. Four bird species were threatened with extinction. Endangered species in the United Arab Emirates are the peregrine falcon, South Arabian leopard, hawksbill turtle, gray wolf, Arabian oryx, Arabian tahr, green sea turtle, and desert monitor.

## 6 POPULATION

The population of United Arab Emirates in 2003 was estimated by the United Nations at 2,995,000, which placed it as number 131 in population among the 193 nations of the world. In that year approximately 1% of the population was over 65 years of age, with another 26% of the population under 15 years of age. There were 186 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.94%, with the projected population for the year 2015 at 3,588,000. The population density in 2002 was 42 per sq km (108 per sq mi).

It was estimated by the Population Reference Bureau that 86% of the population lived in urban areas in 2001. The capital city, Abu Dhabi, had a population of 904,000 in that year. Estimated populations of the other individual emirates were Dubai, 501,000; Sharjah, 314,000; Ra's al-Khaimah, 130,000; 'Ajman, 76,000; Fujairah, 63,000; and Umm al-Qaiwain, 27,000. The population of each emirate is concentrated largely in its capital. The towns of Abu Dhabi and Dubai are the most important urban centers; Abu Dhabi grew rapidly into a metropolitan area by attracting large numbers of internal and external migrants to its booming oil industry. According to the United Nations, the urban population growth rate for 2000–2005 was 2.0%.

## 7 MIGRATION

About 80% of the UAE's population originates from outside its borders. In the early 1980s, the government took steps to reduce the immigration rate by limiting the number of visas issued to foreign workers.

In 2000, there were some 1,922,000 migrants living in the United Arab Emirates. This includes the small number of refugees. The net migration rate for that year was 8.1 migrants per 1,000 population, a considerable drop from 15.0 migrants per 1,000 in 1990. The government views the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

South Asians accounted for 50% of the total population at last estimate. Emiris constituted 19%, while other Arabs and Iranians made up 23%. Other expatriates, including Westerners and East Asians, totaled 8%. Jordanians, Palestinians, Egyptians, Iraqis,

and Bahrainis are employed throughout the bureaucracy, including the educational system.

## 9 LANGUAGES

Arabic is the official and universal language. Hindi and Urdu are minority languages. English is widely used in business. Farsi is spoken in Dubai.

## 10 RELIGIONS

Islam is the official religion of all seven emirates. As such, virtually all UAE nationals and many immigrants are Muslims. Most (85%) are Sunnis, and the remaining 15% are Shi'as. The government does not recognize all non-Muslim religions. In emirates that officially recognize and grant legal identity to non-Muslim groups, only a limited number of Christian groups are granted this recognition. While recognizing the difference between Roman Catholic, Eastern Orthodox, and Protestant Christianity, the authorities make no legal distinction between Christian groups, particularly Protestants. Non-Muslims, constituting approximately 4% of the population, are principally Christians and Hindus, but also include Buddhists, Parsis, Baha'is, and Sikhs.

## 11 TRANSPORTATION

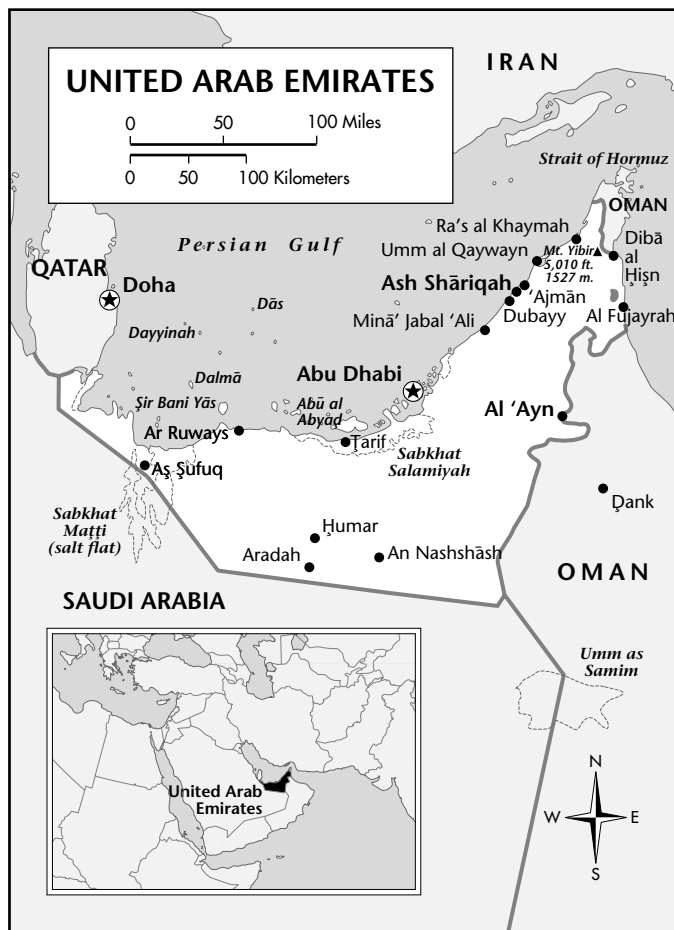
With most of the population concentrated in coastal towns and the Al 'Ayn oasis, road links between these centers have been given priority. There is now a paved coastal road linking Abu Dhabi, Dubai, Sharjah, 'Ajman, Umm al-Qaiwain, and Ra's al-Khaimah. Roads linking the interior to the main towns have been constructed; of particular importance is the transpeninsular road from Fujairah through the Hajar Mountains. A six-lane, 209-km (130-mi) highway has been built between Abu Dhabi and Al-'Ayn, and two bridges connect Abu Dhabi island with the mainland. Another highway links the UAE coastal network with the Trans-Arabian Highway at As-Silah on the Qatar border. In 2002, there were 4,835 km (3,004 mi) of paved highways. Of registered vehicles in 2000, there were 745,315 passenger cars and 453,097 commercial vehicles. There are no railways or waterways in the United Arab Emirates.

The United Arab Emirates is well provided with port facilities. Dubai's Port Rashid, with its deep-water berths and warehouses, is one of the largest artificial harbors in the Middle East. Other ports are the Jabal 'Ali complex, also in Dubai, completed in 1980; Abu Dhabi's Port Zayid; Sharjah's Port Khalid; and the deepwater port at Ra's al-Khaimah. Sharjah constructed a new port at Khor Fakkan in the early 1980s; the Fujairah port became fully operational in 1983. Jabal 'Ali in Dubai is the largest man-made port in the world. In 2002, the merchant fleet consisted of 56 ships with a capacity totaling 833,401 GRT.

In 2001, there were 438 airports, of which 19 had paved runways. A new international airport in Abu Dhabi, on the mainland across from the island, opened in 1982. The other international airports in the United Arab Emirates are in Dubai, Sharjah, and Ra's al-Khaimah. In July 1991, a "cargo village" opened at Dubai Airport, designed to handle 250,000 tons of cargo per year by 1997. The village operations can transfer cargo received at the port into air containers ready for airlift in three hours, and have the facilities to handle frozen and hazardous goods. In 2001, 7,675,800 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Although the Trucial Coast has for centuries been situated on one of the main trade routes between Asia and Europe, very little is known about the early history of the states that now make up the United Arab Emirates. The northern states of the United Arab Emirates, and in particular Ra's al-Khaimah, first came into historic prominence during the period of Portuguese occupation



LOCATION: 51°3' to 56°23' E; 22°30' to 26°17' N. BOUNDARY LENGTHS: Persian Gulf coastline, 1,318 kilometers (817 miles); Oman, 410 kilometers (256 miles); Sa'udi Arabia, 457 kilometers (285 miles). TERRITORIAL SEA LIMIT: 3 miles, except Ash Shariqah (12 miles).

in the 16th and early 17th centuries, when Portugal used the territories as a base to fight a rear guard action against Persia. At that time and down to the mid-18th century, neighboring Oman played an integral role in the history of the maritime states.

Abu Dhabi island was settled by its present ruling family, Al-Nahyan, toward the end of the 18th century, and Dubai was founded by an offshoot of the same family in 1833. The late 18th and 19th centuries brought the division of the area between the Nahyan and the Qawasim, who ruled Ra's al-Khaimah and neighboring territories and whose clashes with British and Indian shipping led to British naval expeditions against what came to be known as the Pirate Coast. Treaties concluded in 1820 and 1835 established a formal relationship between the states of the southern Gulf and Britain that was to last until 1971. In 1853, the sheikhs agreed to a "perpetual maritime truce" to be enforced by the British navy. Under a treaty signed in 1892, the United Kingdom promised to protect the Trucial Coast from all aggression by sea and to lend its good offices in case of land attack. In 1955, the United Kingdom effectively intervened on the side of Abu Dhabi in the latter's dispute with Sa'udi Arabia over the Buraymi oasis, control of which is now shared by Abu Dhabi and Oman.

When, in 1968, the United Kingdom announced its intention to withdraw its forces from the area, a decision to establish a federation of Arab emirates—embracing the seven Trucial States, Bahrain, and Qatar—was agreed on in principle. However, it proved impossible to reconcile the differences among all the

members six Trucial States (excluding Ra's al-Khaimah) agreed on the establishment of the United Arab Emirates, which was officially proclaimed a sovereign, independent nation on 2 December 1971, with Ra's al-Khaimah joining in early 1972.

Externally, the move to independence in 1971 placed the United Arab Emirates in difficult straits with its two powerful neighbors, Sa'udi Arabia and Iran. Sa'udi Arabia asserted a territorial claim on a group of oases in the south of the United Arab Emirates, and Iran laid claim to its offshore islands. In 1974, a border agreement on the Liwa' oases was signed with Sa'udi Arabia, but apparently has not been fully recognized by the rulers of either country. The dispute with Iran over the Abu Musa and Tumb Islands became tense when Iranian forces unilaterally asserted control over the UAE section of Abu Musa in 1992. In 1996, Iran rejected a proposal by the Gulf Cooperation Council (GCC) to put the dispute over the islands to the International Court of Justice (ICJ) for arbitration. In 2003, Iran still occupied the islands. In the dispute, the United Arab Emirates has received support from the GCC, UN, and the United States.

The United Arab Emirates became a founding member in 1981 of the Gulf Cooperation Council (GCC), a political and economic alliance directed, at least implicitly, against Iran. During the Iran-Iraq war, the United Arab Emirates gave aid to Iraq but also maintained diplomatic relations with Iran and sought to mediate the conflict.

In the Gulf War, forces from the United Arab Emirates participated with allied troops and the government gave some \$4.5 billion to the coalition war effort. Subsequently, the United Arab Emirates has increasingly looked to the GCC, the United States, and friendly Arab states for its security protection. The UAE's generosity with foreign aid to Arab states (over \$15 billion through 1991) made it a significant player in the affairs of the region. In the years immediately after the war, the United Arab Emirates accepted the stationing of US troops on its soil.

During the Yugoslav civil war, the United Arab Emirates airlifted wounded Bosnian Muslim women and their families to Abu Dhabi, where they were given free medical treatment and housing, and financial support for one year. The country has also given heavily to Red Crescent relief organizations in Bosnia. Unlike its neighbors and partners in the GCC, Oman and Qatar, the United Arab Emirates did not establish liaison offices in Israel—although it relaxed the Arab-wide boycott of Israel in the hope that lasting peace between the Palestinians and Israel would be forthcoming as a result of the Oslo Accords.

In 1991, the Bank of Commerce and Credit International (BCCI), which was based in the United Arab Emirates and largely owned by the ruling family of Abu Dhabi, collapsed, causing repercussions all around the world. Accused of fraudulent dealings, the bank was officially liquidated in 1996, and the UAE cabinet resigned the following year. A sharp decline in oil prices in 1998 strongly affected the economy of the United Arab Emirates, which recorded a drop of almost 6% in its GDP. At the end of 1999, the United Arab Emirates celebrated the 25th anniversary of its founding, and the 30th anniversary of rule its president, Sheikh Zayid Bin Sultan Al Nuhayyan.

Following the 11 September 2001 terrorist attacks on the United States, the United States called upon the nations of the world to implement counterterrorism measures. In November, the United Arab Emirates ordered financial institutions in the country to freeze the assets of 62 organizations and individuals suspected by the United States of supporting terrorist movements.

During 2002 and into 2003, the United Arab Emirates, along with the other countries of the Persian Gulf, were confronted with the situation of a potential US-led war with Iraq. On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and WMD weapons

capabilities, to allow the immediate return of IAEA and UN weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. If Iraq was found to be in “material breach” of the resolution, “serious consequences” were to result. The United States and the United Kingdom began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. As of 1 February, there were 500 US military personnel and 7 aircraft based at Al Dhafra, and a detachment of Canadian Aurora maritime patrol aircraft in the United Arab Emirates. At an Arab League summit held at Sharm el-Sheik, Egypt, on 1 March, sharp divisions between Arab leaders on the Iraq situation emerged, particularly between Libya and Sa’udi Arabia. However, the leaders issued a declaration expressing “complete rejection of any aggression on Iraq,” and called for continuing UN weapons inspections. It also called upon Iraq to disarm itself of WMD and the missiles needed to deliver them. At the summit, some leaders argued war was inevitable and that the countries of the region should prepare for its aftermath; some argued that war could be avoided if Iraq were to comply with weapons inspections; and a third group argued that the summit should issue an unequivocal anti-war declaration. At the summit, Sheikh Zayid Bin Sultan Al Nahayyan called upon Iraqi president Saddam Hussein to relinquish power and leave Iraq in exchange for immunity from prosecution. Iraq would be placed under the tutelage of the UN and the Arab League until a new government could be formed. Bahrain and Kuwait supported the UAE proposal.

### 13 GOVERNMENT

According to the provisional constitution of the United Arab Emirates, promulgated on 2 December 1971, the executive branch of the UAE government consists of the Federal Supreme Council, headed by the president, and the Council of Ministers. The Federal Supreme Council, composed of the hereditary rulers of the seven emirates, has responsibility for formulation and supervision of all UAE policies, ratification of federal laws, and oversight of the union’s budget. Sheikh Zayid bin Sultan al-Nahayyan, emir of Abu Dhabi, was elected president upon independence and has continuously been reelected to five-year terms ever since. The president is assisted by the Council of Ministers, or cabinet, headed by the prime minister. Sheikh Maktum bin Rashid al-Maktoum, ruler of Dubai, has served as vice-president and prime minister since 1990, succeeding his father upon the latter’s death. The member states are represented in the cabinet in numbers relative to their size and importance.

After extending the 1971 interim constitution at five-year intervals for 25 years, the Supreme Council and the Federal National Council approved a measure removing the term “interim” in 1996, making the document a permanent constitution. The Federal National Council, consisting of 40 delegates from the member emirates, appointed by their respective rulers for two-year terms, can question cabinet ministers and make recommendations to the Supreme Council, but it has no legislative powers. The constitution stipulates the distribution of the 40 seats as follows: Abu Dhabi and Dubai, 8 each; Sharjah and Ra’s al-Khaimah, 6 each; and ‘Ajman, Umm al-Qaiwain, and Fujairah, 4 each. The Supreme National Council meets only occasionally.

Most of the emirates are governed according to tribal traditions, including open meetings in which citizens express themselves directly to their rulers.

### 14 POLITICAL PARTIES

No political parties exist in the UAE. Arab nationalist feeling has developed, however, and there is growing sentiment, particularly among urban youth, in favor of political liberalization and accelerated economic development. Several small clandestine

groups with ties to radical Arab organizations or militant Islamic groups are believed to be active and are watched closely by the federation’s security services.

### 15 LOCAL GOVERNMENT

The major institutions of local government are the municipalities of Abu Dhabi town, Al-‘Ayn, Dubai, Sharjah, Ra’s al-Khaimah, Fujairah, ‘Ajman, and Umm al-Qaiwain and a handful of traditional councils known as majalis and amiri diwans.

### 16 JUDICIAL SYSTEM

Abu Dhabi, Dubai, and Sharjah have developed relatively sophisticated judicial systems based, as in other Gulf states, on a combination of Shari’ah laws and contemporary legal codes. The 1971 constitution established a Federal Supreme Court and an indeterminate number of courts of first instance. The Supreme Court consists of a president and a maximum of five judges, all of whom are appointed by presidential decree upon approval of the Federal Supreme Council. The Supreme Court president and member judges are deemed independent of the executive and legislative branches; once appointed, they cannot be removed. As of 1978 the lower courts were incorporated into a unified federal judiciary consisting of four tribunals.

Shari’ah courts in each emirate are subject to review in the Federal Supreme Court. There is no separate national security court system. Military tribunals try only military personnel and apply a system based on Western military judicial procedure.

Court systems in the Emirates of Dubai and Ra’s-al-Khaimah function independently of the federal system. Each system has multiple levels of appeal and verdicts in capital cases are appealable to the president.

There are no jury trials. Under the Criminal Procedural Code, the accused has a right to counsel in capital cases and in those involving a possible penalty of life imprisonment. Due process rights are uniform under both the civil court and the Shari’ah court procedure.

### 17 ARMED FORCES

The armed forces of the UAE were placed under a unified command in 1976, and the forces of Abu Dhabi, Dubai, Ra’s al-Khaimah, and Sharjah were merged. In 2002, the combined forces totaled 41,500 personnel. The army had 35,000 soldiers including the Royal Guard. Equipment included 45 main battle tanks and 76 *Scorpion* light tanks. The navy was comprised of 2,500 personnel operating 16 patrol and coastal combatants. The air force had 4,000 personnel, 101 combat aircraft, and 49 armed helicopters.

Many military personnel are expatriates from Oman, Jordan, and other countries. The UAE provides support to the peacekeeping mission in Yugoslavia. The US air force maintains a military presence in the UAE. Defense spending in 2000 was about \$1.6 billion or 3.1% of GDP.

### 18 INTERNATIONAL COOPERATION

On 9 December 1971, shortly after achieving independence, the UAE became a member of the UN, and it now belongs to ESCWA and all the nonregional specialized agencies. The country is a member of G-77, GCC, the Islamic Conference, the Arab League, and OPEC. The UAE is a member of the WTO and signatory to the Law of the Sea.

### 19 ECONOMY

The economy of the UAE centers primarily on oil and oil-based industries, but the share of this contribution to the GDP fell from 70% in 1980 to an estimated 22% in 1998. This was principally the result of falling oil prices, but also reflected the growth in other sectors of the economy, such as manufacturing, finance and insurance, real estate, and government services. In 2002, the oil



industry's share was at 24%, but manufacturing had reached 15.1% of GDP from only 3.8% in 1980. The oil industry accounts for about 30% of exports and provides 70% to 80% of government revenues. In Abu Dhabi, by far the wealthiest of the seven emirates, oil revenues are supplemented by income from a huge investment fund. Dubai joined the ranks of the oil producers only in 1971, and entrepôt trade continues to play a major role in its economy. In 2000, Abu Dhabi completed a capacity expansion program has increased the UAE's crude oil production capacity to 2.6 million barrels per day (million barrels per day). Third quarter production in 2002 was 1.99 million barrels per day, somewhat over the official OPEC quota of 1.89 million barrels per day. Although 'Ajman has a small shipbuilding and ship repair yard and a recently established cement company, and Umm al-Qaiwain has a fish hatchery, a cement plant, and some small handicraft operations, these poorer emirates depend on federal aid—in effect, on revenue sharing by Abu Dhabi and Dubai. Oil production in Sharjah began in July 1974, and manufacturing and tourism there have been expanded. The number of factories in Sharjah rose from 74 in 1974 to 931 in 2000, increasing 13.4% from 1998. Ra's al-Khaimah has six large cement plants (three built since 1998), a pharmaceutical factory, a lime kiln, and the gulf's first explosives plant. Fujairah remains predominantly agricultural, but the emirate's government has also been developing an industrialization program, with emphasis on establishing mining-based industries. In 2002 it had 33 factories, a third producing nonmetallic metal products.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the United Arab Emirates' gross domestic product (GDP) was estimated at \$51 billion. The per capita GDP was estimated at \$21,100. The annual growth rate of GDP was estimated at 5.6%. The average inflation rate in 2000 was 4.5%. The annual rate of GDP growth between 1988 and 1998 was about 4.2%. 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. Petroleum extraction accounts for approximately 34.2% of GDP; manufacturing, 11%; wholesale and retail trade, 10%; government services, 9.6%; business, 8%, and construction, 7.4%. Foreign aid receipts amounted to about \$1 per capita.

## 21 LABOR

In 2002, the workforce was estimated at 1.6 million. However, around 74% of the total labor force is made up of foreign nationals, with foreigners accounting for 98% of the private labor force. In 2001, the service sector provided jobs for 78% of the workforce, with industry amounting to 15%, and agriculture 7%.

The UAE leans heavily on skilled labor, technology, and management abilities provided by foreigners. Non-UAE Arabs are employed at all economic levels, including the government bureaucracy and civil service. Manual labor is largely performed by Pakistanis and Iranians, while many Indians are to be found in clerical positions. Most domestic servants are women from Sri Lanka or the Philippines. There is a high proportion of Europeans at management levels. Until recently, the large influx of immigrants was insufficient to cope with labor needs. A 1984 decree guarantees UAE nationals priority in hiring, in order to reduce dependence on expatriates.

Unionization is prohibited by law. Collective bargaining provisions do not exist, and strikes are strictly prohibited in the public sector. Rather, all labor contracts are reviewed by the Ministry of Labor to ensure that the pay will satisfy the employee's basic needs and secure a means of living.

There is no minimum wage. A standard workweek of eight hours per day, six days per week and minimum occupational health and safety requirements are not effectively enforced. Foreign workers are especially vulnerable to abuse. Widespread and credible reports indicate that foreign workers have had their passports confiscated, pay withheld, and are forced to work excessively long days far beyond the statutory maximum. Women working as domestic servants have also reported being sexually and physically abused. Foreign workers have little redress for their grievances. UAE administrative bodies virtually never rule against a UAE employer, and UAE employers can prevent a foreign worker from switching to another employer.

## 22 AGRICULTURE

Only about 81,000 hectares (200,000 acres) of land are cultivated. About 24% of cultivated land is used to grow vegetables, 30% fruit, 10% feed crops, and 36% for other uses. The most productive region is Ra's al-Khaimah, which receives underground water supplies from the nearby mountains of Oman and which enjoys the most plentiful rainfall. The main crops are tomatoes, melons, and dates.

The Digdaga Agricultural Trials Station in Ra's al-Khaimah is central to all agricultural research and training efforts in the UAE. Abu Dhabi has two large wheat farms at Al 'Ayn, and experimental farms at Rawaya and Mazaid (near Al 'Ayn) are designed to encourage local Bedouins to take up settled farming. The Abu Dhabi Arid Land Research Center on Sadiyat Island produces vegetables through special irrigation and hydroponic techniques. In 1999, UAE agriculture produced 1,055,000 tons of vegetables and melons, and 358,000 tons of fruit. Produce includes citrus, mangos, tomatoes, celery, potatoes, cucumbers, lettuce, melons, peppers, and fodder crops.

The Ministry of Agriculture and Fisheries reported a 48% increase in vegetable production between 1992 and 1995. Dates, traditionally grown on oases by nomads, are becoming less important because of vegetable and fruit production. In 1999, the UAE produced 295,000 tons of dates. The UAE currently satisfies about 60% of its domestic fruit and vegetable demand; bans on imports of certain vegetables and government incentives and subsidies are used to encourage domestic production. Roses and chrysanthemums are grown for export to Europe.

## 23 ANIMAL HUSBANDRY

Livestock production has risen sharply in recent years. In 2001, the UAE had 1,300,000 goats, 550,000 sheep, 220,000 camels, and 97,000 head of cattle. Dairy farming is centered in Ras al-Khaimah, with other dairy farms in Al Ain, Umm Al Quwain, Sharjah, and Dubai. The UAE produces about 90% of its dairy needs. Local poultry and egg production satisfy 27% and 40% of domestic demand, respectively. Five major producers account for 75% of the domestic chicken production. The poultry farm at Fujairah has the capacity to supply over 15% of domestic demand for broilers and eggs. Ras al-Khaimah and Al Ain are other centers of poultry production. Production of poultry meat reached 37,000 tons in 2001, with imports of poultry meat (mainly from France, Denmark, the United States, and Brazil). The UAE also re-exports poultry meat, mostly to Oman, former Soviet republics, and Iran.

## 24 FISHING

Fishing is an important source of domestic food and fodder. Per capita annual consumption of fish and shellfish in the UAE is more than any other country in the Middle East. UAE coastal waters abound in fish and shellfish, and the country borders two high-potential fishing regions, the Persian Gulf and the Gulf of Oman. Many varieties of fish are caught, including rock cod, tuna, mackerel, sardines, anchovies, jack, marlin, red mullet, bream, and snapper. Over 70% of the catch typically is dried and

processed into animal feed and fertilizer. The fish catch in 2000 was 105,456 tons, which supplied about 50% of local demand. Modern fishing techniques have been introduced with government assistance, and two new ports permitting the use of larger fishing boats were opened in 1981. The government also provides facilities for ship maintenance pro bono, as well as interest-free loans for the purchase of fishing boats and equipment. More than 3,000 fishing vessels annually operate in UAE waters. Umm Al Quwain is the site of a new 1,300 sq m marine farm which will research fish breeding. A fishmeal plant is in operation in Ra's al-Khaimah.

## 25 FORESTRY

Natural woodland is scarce, apart from palm groves along the northern and eastern coasts. Forested areas covered 321,000 hectares (793,000 acres), or about 3.8% of the total land area in 2000. The Forestry Department planted 80 million trees during 1980–95, at a cost of over \$3 billion. Imports of forest products totaled \$344.8 million in 1997.

## 26 MINING

Apart from oil and natural gas, the minerals sector included fertilizer production and production of construction materials, marble, and stone quarried from the Hajar Mountains. Copper and chromium have been found in Fujairah and Ra's al-Khaimah. In 2000, 60,000 tons of chromite ore were produced; 348,400 tons of ammonia (nitrogen content); and 243,400 tons of urea (nitrogen content). Lime, gypsum, hydraulic cement, and, presumably, common clays, diabase, gravel, limestone, sand, and shale were also produced.

## 27 ENERGY AND POWER

The UAE's crude oil production was 2.27 million barrels per day in the third quarter of 2002 (up from 1,260,000 barrels per day in 1985). Total reserves of crude oil were estimated at the beginning of 2002 at 97.8 billion barrels, or about 10% of the world's total. Production is confined to Abu Dhabi, Dubai, Sharjah, and Ra's al-Khaimah, which together had an estimated maximum daily capacity of 2.6 million barrels in 2002, giving the UAE the second-largest production capacity among Organization of the Petroleum Exporting Countries (OPEC) members (surpassed only Saudi Arabia). Abu Dhabi accounts for 94% of the total reserves, or about 92.2 billion barrels. Abu Dhabi's oil output comes almost exclusively from the onshore drilling activities of the Abu Dhabi Co. for Onshore Oil Operations (ADCO) and the offshore activities of Abu Dhabi Marine Operating Co. (ADMA-OPCO). Abu Dhabi has a 60% participation in the operations of both companies, which are managed by the government-owned Abu Dhabi National Oil Co. (ADNOC). The remaining 40% of ADCO's ownership is divided mainly among UK, US, and Dutch interests; the balance of ADMA-OPCO is owned by UK, French, and Japanese firms.

Offshore oil exploration by foreign companies has produced major new finds in recent years. Discovery of the offshore Butainah field in 1979 added about 1 billion barrels of oil to the UAE's proved reserves. That year, a US company, Amerada Hess, began producing crude oil at a rate of 15,000 barrels a day from the Arzanah offshore field. The Japan Oil Development Co. (JODCO), in partnership with ADNOC, began production at the offshore Umm ad-Dalkh field near Abu Dhabi in 1982. The two companies also agreed to develop three other small offshore areas, and both joined a French firm, CFP, to produce a projected 50,000 barrels of oil per day from the Upper Zakum field. The offshore Saleh field was found in 1983. As of 2002 ADNOC was planning to sell a 28% stake in the Upper Kakum field to foreign interests.

In 1981, Abu Dhabi and Dubai began to transfer up to half of their annual revenues from oil operations to the federation. The

UAE's oil export receipts were \$11 billion in 1999, down from \$12.3 billion in 1985, and from \$19.4 billion in 1980. Oil exports in 1995 accounted for 46% of total export revenue. In 2002, 60% of oil exports went to Japan.

The UAE has two major refineries in Abu Dhabi, both operated by ADNOC, as well as two smaller facilities. In addition, there is a new \$300 million condensate refinery in Dubai that began operations in 1999. Refining capacity was 514,750 barrels a day at the beginning of 2002. The UAE's proven natural gas reserves totaled about 6 trillion cu m; net production amounted to 39.9 billion cu m in 2000. The second phase of the \$1 billion Habshan onshore natural gas project was completed in early 2001.

All electricity is thermally generated from oil or natural gas. Electric power production was 36.3 billion kWh in 2000. Consumption of electricity in 2000 was 36 billion kWh. Total installed capacity in 2001 was 5.6 million kW. The first phase of the Taweelah A-2 cogeneration facility, the UAE's first independent water and power project, began operations in 2000.

## 28 INDUSTRY

The process of industrialization gathered momentum after the formation of the federation in 1971. By 2002, manufacturing was second only to the oil sector in contributions to economic output. To diversify the economy, in the early 1990s the UAE introduced new industries, including aluminum, cement, pharmaceuticals, fabricated metals, processed foods, fertilizer, and explosives. Manufacturing as a percentage of GDP rose from 3.8% in 1980 to 7.7% in 1990 to 8.7% in 1995 to 15.1% in 2002.

The Ar-Ruwais industrial complex in Abu Dhabi includes an oil refinery with a processing capacity of 120,000 barrels per day; a fertilizer factory, with a production capacity of 1,000 tons of ammonia and 1,500 tons of urea per day; and a gas liquefaction installation. In June 2002 agreement was reached on a contract to expand the refinery capacity Ruwais refinery to 500,000 barrels per day to be completed by 2005. The UAE has five other smaller refineries: In Abu Dhabi, a 88,500 barrels per day capacity facility run, like the Ruwais refinery, by the Abu Dhabi National Oil Company (ADNOC); in Fujairah, a 90,000 barrels per day refinery run by Metro Oil; in Dubai, the 120,000 barrels per day Jebel Ali condensate refinery run by the Emirate National Oil Company (ENOC), first opened in 1999; near Jebel Ali, a 40,000 barrels per day second-hand gasoline unit run by ISO Octane, opened May, 2000; and in Sharjah, another second-hand unit with 71,250 barrels per day capacity opened in 2001 and run by the Sharjah Oil Refining Company (SORC). The UAE's crude oil refining capacity as of January 2001 was 514,750 barrels per day.

Near Umm An-Nar, a large plant belonging to National Chlorine Industries produces salt, chlorine, caustic soda, and hydrochloric acid. In Dubai the industrial port complex at Jebel 'Ali is the largest manmade port in the world and includes the largest dry dock in the world with capacity of one million tons. The Jebel Ali Free Zone (JAFZ) is the UAE's most developed free trade zone, including close to 200 factories, prominent among them being a major power plant with water desalination units, a steel fabrication plant, and an aluminum smelter, built in 1979, producing 290,030 tons of aluminum products per year. Plans have been announced to expand the Dubai Aluminum Company's capacity to 372,600 tons per year. Dubai's older industrial zone of Rashidiya is the site of some 40% of the emirate's processing industries. The other emirates have developed industries that produce construction-related materials such as cement, asphalt, and concrete blocks.

According to the statistics of UAE's Ministry of Finance and Industry (MOFI), there were 2,153 registered industrial establishments in 2000 (up from 1,261 in 1995) employing 176,260 people. Forty percent of the units—854—were in Dubai, which also accounted for 46.7% of industrial investment (\$3.6

billion of \$7.76 billion). Abu Dhabi accounted for 25% of investment (\$2 billion) but only 10% of industrial units (235). Sharjah and Ras Al-Kaimah had industrial investment of \$790 million and \$763 million, respectively, each about 10% of the total. Outside of the oil sector, chemicals commanded the largest portion of investment (14.5%), with food and beverages second (11.2%). Metal production accounted for 3.6% of industrial investment and garments 0.8%.

### 29 SCIENCE AND TECHNOLOGY

Advanced technology in the United Arab Emirates has been imported mostly by foreign oil companies and is limited largely to heavy industry; nearly all of its technological specialists are foreigners. In the 1980s, the United Arab Emirates took major steps to decrease its reliance on foreign scientists and technicians. The Ministry of Agriculture and Fisheries has a research center in Ra's al-Khaimah. United Arab Emirates University, founded in 1976 at Al Ain, has faculties of sciences, engineering, agricultural sciences, medicine and health sciences. Ajman University College of Science and Technology was founded in 1988, Etisalat College of Engineering at Sharjah in 1989, and the The Higher Colleges of Technology at Abu Dhabi in 1988. In 1987-97, science and engineering students accounted for 24% of college and university enrollments.

### 30 DOMESTIC TRADE

Dubai remains the most important center of trade and commerce, both for the nation and the region. Many food importers also serve as wholesalers, distributors, and retailers. There are about four or five large companies controlling most of the food retail sector. Franchising has become very popular in a variety of retail sectors including, restaurants, clothing, hardware supplies, beauty products, health care products, toys, sporting goods, etc.

Business hours tend to vary, although general hours of 8 AM to 1 PM and 4 to 7 PM are observed; most offices are closed Thursday afternoon, and Friday is the weekly holiday. Banks are open from 8 AM to noon, Saturday-Thursday.

### 31 FOREIGN TRADE

UAE's commodity exports were crude oil (45%), natural gas, re-exports, dried fish, and dates as of 2000. Imports include machinery, vehicles, electrical equipment, aircraft, cosmetics, tobacco, steel, furniture, plastics, chemicals, and food products.

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	7,583	3,150	4,433
Korea	1,930	1,647	283
India	1,638	1,789	-151
Singapore	957	1,127	-170
United Kingdom	842	2,845	-2,003
United States	644	2,607	-1,963
Germany	187	2,102	-1,915
China (inc. Hong Kong)	147	1,417	-1,270
France	107	1,352	-1,245
Italy	101	1,772	-1,671

### 32 BALANCE OF PAYMENTS

Oil and natural gas exports have allowed the UAE to sustain a trade surplus for many years, but changes in oil prices cause the surplus to fluctuate widely from year to year. In the early 2000s traders in the UAE were beginning to seek out new markets in locales such as Russia, the Central Asian states, and East and South Africa. The government does not provide statistics for workers' remittances, investment income, oil and gas export revenues, foreign direct investment transactions, and capital

transactions, which seriously compromises the compilation of balance of payments statistics.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of the United Arab Emirates' exports was \$47.6 billion while imports totaled \$28.6 billion resulting in a trade surplus of \$19 billion.

### 33 BANKING AND SECURITIES

The UAE Currency Board came into existence with its issuance of the UAE dirham in May 1973. In 1975-76, statutes came into force providing for the board's gradual transformation into a central bank, including powers to impose minimum liquidity ratios and other credit regulations. The board was replaced in 1980 by the UAE Central Bank, with enhanced authority to regulate the banking system. Capitalized at \$81.7 million, the bank was granted additional capital of \$2 billion from the government in 1982, which was to increase by 20% per year until a total deposit of \$4 billion had been reached.

The oil boom of the 1980s brought with it the proliferation of commercial banks, making the UAE one of the most overbanked countries in the world. By 1987, strains were beginning to show and two banks collapsed. Bad loans were prevalent and some borrowers used the Islamic prohibition on *riba* (interest) as an excuse not to repay debts.

UAE banks were hit hard by the invasion of Kuwait in 1990, when partial withdrawals amounted to an estimated UD7 billion (\$1.9 billion), or 7% of total deposits. In 1991, the Bank of Commerce and Credit International (BCCI), based in the United Arab Emirates and owned in large part by the ruling family of Abu Dhabi, was accused of fraudulent dealings, and closed, damaging the credibility of the UAE banking system. However, because of improvements in the banking system, in 1999 the government cleared the way for establishment of an offshore banking center to be based in the free zone on Saadiyat Island, to enable UAE to compete with Bahrain. Also in 1999, the merger of two banks—National Bank of Dubai and Emirates Bank International—was announced. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$10.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$42.6 billion.

As of 2000, the United Arab Emirates was planning a stock exchange as part of the financial center on Saadiyat Island in Abu Dhabi.

### 34 INSURANCE

Because of tightening federal regulations, the number of insurance companies declined from 126 in 1980 to 56 in 1987. The Federal Insurance Companies and Agents Law of 1984 requires all insurance companies established in the UAE to be public joint-stock companies, with equity wholly owned by UAE nationals. Companies already established in the country can obtain a concession from the local equity provision. Minimum capital must be UD10 million. In 2001, \$149 million worth of life insurance premiums was written in the United Arab Emirates. In 1999, there were 19 National Insurance companies practicing in UAE, and 28 foreign insurance companies.

### 35 PUBLIC FINANCE

A federal budget is prepared according to the UAE's development policy, while each emirate is responsible for municipal budgets and local projects. Conservative public expenditure policies have become more necessary as oil revenues have declined since 1983. Deficit spending is common. Abu Dhabi's oil income accounts for the bulk of federal revenues; under the constitution, each emirate contributes 50% of its net oil income to the federal budget.

The US Central Intelligence Agency (CIA) estimates that in 2000 the United Arab Emirates's central government took in revenues of approximately \$20 billion and had expenditures of \$22 billion. Overall, the government registered a deficit of approximately \$2 billion. External debt totaled \$12.6 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>20,000</b>
Tax revenue	17.7%	3,532
Non-tax revenue	16.2%	3,235
Capital revenue	0.1%	17
Grants	66.1%	13,216
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>22,000</b>
General public services	3.2%	711
Defense	30.1%	6,613
Public order and safety	13.8%	3,032
Education	17.3%	3,812
Health	7.2%	1,589
Social security	3.2%	704
Housing and community amenities	1.6%	361
Recreation, cultural, and religious affairs	1.4%	318
Economic affairs and services	4.5%	999
Other expenditures	17.6%	3,861

### 36 TAXATION

Each emirate has its own decrees on corporate taxation. Corporate taxes are paid only by oil companies (at rates that vary among emirates) and branches of foreign banks (at 20%). Municipal taxes are 5% on residential and 10% on commercial rents. A 5% tax is imposed on hotel services and entertainment. There is no personal income tax.

### 37 CUSTOMS AND DUTIES

Dubai, the major area for foreign trade, is a free trade zone and free port with no restrictions on imports or exports. The individual emirate governments exert no control over imports, except for licensing. Customs duties are levied ad valorem; the rates differ among the emirates but are generally nominal (4% for most goods), except for a duty of 50% on alcoholic beverages (importation of which requires special permission). The duty on tobacco was 90% of the CIF (cost, insurance, and freight) value. Duty-free imports include machinery, construction materials, foodstuffs, medicine, and printed matter. Food imports require a health certificate and meats require a certificate from a slaughterhouse that has been approved under Islamic law. Import licenses are required for all firms desiring to engage in importation. The United Arab Emirates is a member of the Gulf Cooperation Council (GCC) along with Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia. The GCC has been in discussions for a common external tariff (CET) for some years.

### 38 FOREIGN INVESTMENT

All the emirates are eager to attract foreign investment. One obstacle to foreign investment may be the federal requirement that investments must be on a joint venture basis with the local partner owning at least 51% of the venture. The exception is investment in the free trade zones where 100% foreign ownership is allowed. In 2002, there were 11 free trade zones in the UAE in various stages of development. Most provide 100% import and export tax exemption, 100% exemption from commercial levies, 100% repatriation of capital and profits, multiyear leases and other services, including assistance with recruiting labor. The largest and most successful is the Jebel Ali industrial free zone

(JAFZ) in Dubai incorporating close to 2,000 companies from over 100 countries. The JAFZ has attracted more than \$3 billion of foreign investment. In 2002, three new zones were announced: The Dubai International Financial Centre; the Dubai Metals and Commodities Centre; and the Mohammed bin Rashid Technology Zone. In 2000, Dubai Internet City, the world's first e-commerce free zone, was opened, and in 2001, the Dubai Media City began was launched. Other free zones are located in the Dubai International Airport, and in Sharjah, Ajman, Umm Al Quwain, and Fujairah. Principal foreign investors are the United Kingdom, the United States, France, India, Japan, and Germany. Though reliable statistics are not available for the UAE, some reports suggest that US investment in 1999 was about \$500 million. Multinational companies operating in the Jebel Ali industrial zone include the following Samsung (ROK); Pioneer (Japan); General Motors, IBM, Mobil, and Toys "R" Us (US); and Ericsson (Sweden).

In 1996, UAE created the Abu Dhabi Free Zone Authority to regulate the development of Saadiyat Island, where there will be few restrictions on foreign companies. Companies opening offices there will be exempt from taxes, will be allowed to repatriate all profits and capital, to import labor; in addition, there will be no requirements to establish UAE partners. In 1999, the Emirates Global Capital Corporation was granted a 50-year contract to develop the 26 sq km (10 sq mi) zone, where a stock, commodities, and futures exchange was planned. However, in 2002 this project was on hold.

### 39 ECONOMIC DEVELOPMENT

The discovery of oil opened the way for the UAE into the industrial age. The federation, formed in 1971, used its vast oil wealth during the 1970s to transform the national economy through expansion of roads, ports, airports, communications facilities, electric power plants, and water desalination facilities, as well as construction of huge oil-processing complexes. With the completion of major infrastructural projects by the early 1980s, the focus of development shifted to diversifying the economy by establishing capital-intensive industries based on oil and gas resources.

The country's major industrial projects are the Jabal 'Ali industrial zone in Dubai and the refinery complex at Ar-Ruwais in Abu Dhabi. Jabal 'Ali includes the Dubai Aluminum Co. smelter, a natural gas liquefaction plant, a cable factory, and a desalination plant that is one of the world's largest, with an output of about 25 million gallons of water daily. In mid-1995, 822 companies were operating in the Jabal 'Ali Free Zone. by 2002, this number had risen to about 2000, representing investments from over 100 countries. The United Arab Emirates now hosts 11 free trade zones including the innovative Dubai Internet City, launched in 2000, the world's first e-commerce free trade zone. and Dubai Multi-Media City, established in 2001. In 2002 three new specialized free zones were founded: the Dubai International Financial Centre, the Dubai Metals and Commodities Centre, and the Mohammed bin Rashid Technology Park.

In 1997 the Industrial Loan Fund was set up to provide finance through the Gulf Industrial Corporation (GIC) established in 1979 in Abu Dhabi. The GIC now owns a large number of industries which produce a wide variety products, including cement blocks, fodder, flour, PVC pipes, mineral waters, and aluminum.

In relation to GNP, the UAE is one of the world's major aid donors; the principal vehicle for bilateral aid has been the Abu Dhabi Fund for Arab Economic Development. The UAE makes regular annual payments to Syria, Jordan, Lebanon, and the PLO. Responding to Iraq's invasion of Kuwait in 1990, the UAE made significant financial contributions to assist the frontline states and to share the cost of the foreign military forces.

## 40 SOCIAL DEVELOPMENT

There is no social security law in the UAE, but many welfare benefits are available to citizens, among them free hospital treatment and medical care and subsidies for education. Relief for any domestic catastrophe is provided from a disaster fund. If the father of a family is unable to work because of illness, disability, or old age, he receives help under the National Assistance Law; should he die or divorce his wife, the woman's future is secured. UAE nationals receive many government services, including health care, water, and electricity, free of charge.

Female employment is growing in government service and in occupations such as education and health. According to government statistics, women accounted for nearly 20% of the workforce. Women account for 65% of intermediate and secondary school teachers, 54% of health care workers, and nearly 40% of all government employees. They are also accepted for military service. Women account for over 75% of the student body at the UAE University.

Women continue to suffer from official discrimination. Females may not leave the country without the permission of a male relative. Custody is given to mothers following divorce only in cases of children under seven. A married woman can work outside the home only with her husband's permission. Men may have more than one wife, but not more than four, and the practice is widespread. Women who remarry may have to give up custody of children from a previous marriage.

Many domestic servants are foreigners who are sometimes subjected to mistreatment or abuse, and poor pay. If they leave their employers without fulfilling the terms of their contract, they may be barred from taken further employment.

The government restricts democratic freedoms and also limits freedoms of speech, assembly, association, press, and the right to a speedy trial.

## 41 HEALTH

Health facilities have been expanded rapidly since independence. Modern hospitals have been built in Abu Dhabi, Dubai, and other towns. In 1991, there were 1,526 doctors and 2,800 nurses. In 1991–1993, 95% of the population had access to health care services. In 1995, 95% of the population had access to safe water and 98% had adequate sanitation in 1994–1995. As of 1999, there were an estimated 1.8 physicians and 2.6 hospital beds per 1,000 people. In the same year total health care expenditure was estimated at 8.4 % of GDP.

Average life expectancy in 2000 was 75 years and the infant mortality rate was 7 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 18.3 and 3.9 per 1,000 people. Children up to one year old were immunized in 1994 against tuberculosis, 98%; diphtheria, pertussis, and tetanus, 90%; polio, 90%; and measles, 90%. As of 1999 the rates for DPT and measles were, respectively, 94% and 95%.

Typhoid fever and tuberculosis are rare; malaria remains a problem. Malaria incidence was 3,735 reported cases in 1993. The goiter prevalence was 40.4 per 100 school children in 1996. The HIV prevalence rate in 1997 was 0.2 per 100 adults. The next year, there were only eight cases of AIDS reported.

## 42 HOUSING

The federal government is attempting to make modern low-cost homes available to poorer families, supplying them with amenities such as piped water, sewerage systems, and electricity. The Ministry of Housing constructed about 4,000 houses for free distribution to poor families between 1978 and 1981. In 1993, government spending for housing was at about 30% of the total budget. In 1995, the Abu Dhabi Department of Social Service and Commercial Buildings (est. 1976) began construction of 504

residential buildings and had 417 other projects in the planning stages. The department has built over 40,000 housing units since 1976. In 1980, 33% of all housing units were flats, 30% were traditional Arabic dwellings, 9% were low-cost housing, 8% were shacks, and the remainder were sheds, caravans, single rooms, tents, and other facilities. About 85% had water closets and 26% had electricity, piped-in water, and access to a sewage system.

## 43 EDUCATION

The educational system of the United Arab Emirates has burgeoned since 1971. Education in the six northern emirates, formerly financed and administered by Kuwait, has been managed by the UAE Ministry of Education since 1972. Education is compulsory for six years at the primary level, from age six, and is free to all UAE citizens, as are school uniforms, books, equipment, and transportation. Arabic is a compulsory subject, and segregation of classes by sex is required. The system remains concentrated at the primary level. At the secondary level, children go through six years of education in two stages. In 1997, there were 259,509 pupils and 16,148 teachers at the primary level. Student-to-teacher ratio stood at 16 to 1. In the same year, secondary schools had 180,764 pupils and approximately 11,000 teachers. As of 1999, 78 % of primary-school-age children were enrolled in school, while 68% of those eligible attended secondary school. United Arab Emirates University is at Al 'Ayn. In 1997, all higher-level institutions had 16,213 students. Approximately 16.7% of the central government budget was allocated to education in the latter part of the 1990s. As of 1999, public expenditure on education was estimated at 1.9% of GDP. For the year 2000, adult illiteracy rates were estimated at 23.5% (males, 24.8%; females, 20.5%).

## 44 LIBRARIES AND MUSEUMS

The National Library has four branches and holds 370,000 volumes. The Higher Colleges of Technology (175,000 volumes), and the United Arab Emirates University (300,000 volumes) are in Abu Dhabi. The Al 'Ayn Museum (1971) is an archeological institution. There are local museums in Dubai, Fujairab, and Sharjah, which is also home to archaeological, historical, Islamic, and science museums.

## 45 MEDIA

The communications system has been dramatically improved and expanded in recent years. Telecommunications operations in the emirates are all handled by ETISALAT. The Jabal 'Ali earth satellite station in Dubai maintains telephone and telegraph traffic, telex data transmission, and color television broadcasting; computer-controlled automatic telex systems have been installed in both Dubai and Abu Dhabi. In 1998, the UAE had 915,223 main telephone lines and 1 million cellular phones in use. A color television network connects Abu Dhabi with Dubai and Sharjah. UAE Radio has broadcasting stations in four emirates; the first commercial station was opened in Abu Dhabi in 1980. As of 1999 there were 8 AM and 3 FM radio stations and 15 television stations. In 2000 the UAE had 318 radios and 292 television sets for every 1,000 people.

The Provisional Constitution provides for free expression; however, the government restricts expression in practice. All published materials must be licensed by the Ministry of Education, which governs content and allowable subjects. The media practice self-censorship on the subjects of government policy, the ruling families, national security, religion, and international relations. Arabic-language dailies published in the UAE in 2002 include: *Al-Khalij* (2002 circulation, 85,000), *Al-Ittihad (Unity)*, 58,000), *Al-Fajr (The Dawn)*, 50,000), *Al-Wahdah* (30,000), and *Al-Bayan* (32,650). There were three English-language dailies: the *Gulf News* (91,530) and *Khaleej Times*

(72,000), published in Dubai, and the *Emirates News* (21,150), published in Abu Dhabi.

#### 46 ORGANIZATIONS

There are chambers of commerce in the larger states. The Federation of United Arab Emirates Chambers of Commerce and Industry is located in Abu Dhabi. Various social and sporting clubs provide outlets for philanthropic work and recreation. National youth organizations include the National Union of Students of the Emirates and the Emirates Scout Association. The Red Crescent Society is active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Except for Gulf nationals and citizens of the UK, most visitors must secure a visa in advance. Tourism is encouraged by all the emirates, whose varied scenery includes mountains, beaches, deserts and oases. Activities include visits to Bedouin markets, museums, zoos, and aquariums. Many large world-class hotels have opened in recent years. The emirates attract tourists from Western Europe during the winter, when the main attractions are the beaches and sunny climate. Tourists numbered 3,906,545 in 2000, with receipts totaling \$1 billion

The cost of staying in Dubai, according to 1999 UN estimates, was \$194 per day; estimated daily expenses for travel in Abu Dhabi was approximately \$197.

#### 48 FAMOUS EMIRIANS

Sheikh Zayed bin Sultan an-Nahyan (b.1918) has been ruler of Abu Dhabi since 1966 and president of the UAE since 1971.

#### 49 DEPENDENCIES

The UAE has no territories or colonies.

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# UNITED STATES PACIFIC DEPENDENCIES

## AMERICAN SAMOA

American Samoa, an unincorporated and unorganized insular US territory in the South Pacific Ocean, comprises that portion of the Samoan archipelago lying E of longitude 171° W. (The rest of the Samoan islands comprise the independent state of Western Samoa.) While the Samoan group as a whole has an area of 3,121 sq km (1,205 sq mi), American Samoa consists of only seven small islands (between 14° and 15° S and 168° and 171° W) with a total area (land and water) of 197 sq km (76 sq mi). Five of the islands are volcanic, with rugged peaks rising sharply, and two are coral atolls.

The climate is hot and rainy; normal temperatures range from 24°C (75°F) in August to 32°C (90°F) during December–February; mean annual rainfall is 330 cm (130 in), the rainy season lasting from December through March. Hurricanes are common. The native flora includes flourishing tree ferns, coconut, hardwoods, and rubber trees. There are few wild animals.

As of mid-2002, the estimated population was 68,688, an increase over the 1986 population estimate of 37,500. However, the total population has remained relatively constant for many years because of the substantial number of Samoans who migrate to the United States. The inhabitants, who are concentrated on the island of Tutuila, are almost pure Polynesian. English is the official language, but Samoan is also widely spoken. Most Samoans are Christians.

The capital of the territory, Pago Pago, on Tutuila, has one of the finest natural harbors in the South Pacific and is a duty-free port. Passenger liners call there on South Pacific tours, and passenger and cargo ships arrive regularly from Japan, New Zealand, Australia, and the US west coast. There are regular air and sea services between American Samoa and Western Samoa, and scheduled flights between Pago Pago and Honolulu.

American Samoa was settled by Melanesian migrants in the 1st millennium BC. The Samoan islands were visited in 1768 by the French explorer Louis-Antoine de Bougainville, who named them the Îles des Navigateurs as a tribute to the skill of their native boatmen. In 1889, the United States, the United Kingdom, and Germany agreed to share control of the islands. The United Kingdom later withdrew its claim, and under the 1899 Treaty of Berlin, the United States was internationally acknowledged to have rights extending over all the islands of the Samoan group lying east of 171° W, while Germany was acknowledged to have similar rights to the islands west of that meridian. The islands of American Samoa were officially ceded to the United States by the various ruling chiefs in 1900 and 1904, and on 20 February 1929 the US Congress formally accepted sovereignty over the entire group. From 1900 to 1951, the territory was administered by the US Department of the Navy, and thereafter by the Department of the Interior. The basic law is the Constitution of 1966.

The executive branch of the government is headed by a governor who, along with the lieutenant governor, is elected by popular vote; before 1977, the two posts were appointed by the US government. Village, county, and district councils have full authority to regulate local affairs.

The legislature (Fono) is composed of the House of Representatives and the Senate. The 15 counties elect 18 matai (chiefs) to four-year terms in the senate, while the 20 house members are elected for two-year terms by popular vote within the counties. (There is one appointed member from Swains Island.) The secretary for Samoan affairs, who heads the Department of Local Government, is appointed by the governor. Under his administration are three district governors, the county chiefs, village mayors, and police officials. The judiciary, an independent branch of the government, functions through the high court and five district courts. Samoans living in the islands as of 17 April 1900 or born there since that date are nationals of the United States. The territory sends one delegate to the US House of Representatives.

The economy is primarily agricultural. Small plantations occupy about one-third of the land area; 90% of the land is communally owned. The principal crops are bananas, breadfruit, taro, papayas, pineapples, sweet potatoes, tapioca, coffee, cocoa, and yams. Hogs and poultry are the principal livestock raised; dairy cattle are few. The principal cash crop is copra. A third of the total labor force is employed by the federal and territorial government. The largest employers in the private sector, with more than 15% of the labor force, are two modern tuna canneries supplied with fish caught by Japanese, US, and Taiwanese fishing fleets. Between 80% and 90% of foreign trade is conducted with the United States.

Samoans are entitled to free medical treatment, including hospital care. Besides district dispensaries, the government maintains a central hospital, a tuberculosis unit, and a leprosarium. US-trained staff physicians work with Samoan medical practitioners and nurses. The LBJ Tropical Medical Center opened in 1986.

Education is a joint undertaking between the territorial government and the villages. School attendance is compulsory for all children from 6 through 18. The villages furnish the elementary-school buildings and living quarters for the teachers; the territorial government pays teachers' salaries and provides buildings and supplies for all but primary schools. Since 1964, educational television has served as a basic teaching tool in the school system. About 97% of the population is literate. In 1997, total enrollment in American Samoa's 29 public elementary and secondary schools was over 19,000. American Samoa Community College enrolled 1,178 in the fall of 2001.

Radiotelegraph circuits connect the territory with Hawaii, Fiji, and Western Samoa. Every village in American Samoa has telephone service.

## GUAM

The largest and most populous of the Mariana Islands in the Western Pacific, Guam (13° 28' N and 144° 44' E) has an area, including land and water, of 540 sq km (208 sq mi) and is about 48 km (30 mi) long and from 6 to 12 km (4–7 mi) wide. The island is of volcanic origin; in the south, the terrain is mountainous, while the northern part is a plateau with shallow

fertile soil. The central part of the island (where the capital, Agaña, is located) is undulating country.

Guam lies in the typhoon belt of the Western Pacific and is occasionally subject to widespread storm damage. In May 1976, a typhoon with winds of 306 km/hr (190 mph) struck Guam, causing an estimated \$300 million in damage and leaving 80% of the island's buildings in ruins. Guam has a tropical climate with little seasonal variation. Average temperature is 26°C (79°F); rainfall is substantial, reaching an annual average of more than 200 cm (80 in). Endangered species include the giant Micronesian kingfisher and Marianas crow.

The mid-2002 population, excluding transient US military and civilian personnel and their families, was estimated at 160,796, an increase over the 1986 estimate of 117,500. The increase was attributed largely to the higher birthrate and low mortality rate. The present-day Chamorro, who comprise about 37% of the permanent resident population, descend from the intermingling of the few surviving original Chamorro with the Spanish, Filipino, and Mexican settlers, plus later arrivals from the United States, United Kingdom, Korea, China, and Japan. Filipinos (26%) are the largest ethnic minority. English is the official language, although Chamorro is taught in the primary schools. The predominant religion is Roman Catholicism.

The earliest known settlers on Guam were the original Chamorro, who migrated from the Malay Peninsula to the Pacific around 1500 bc. When Ferdinand Magellan landed on Guam in 1521, it is believed that as many as 100,000 Chamorro lived on the island; by 1741, their numbers had been reduced to 5,000—most of the population either had fled the island or been killed through disease or war with the Spanish. A Spanish fort was established in 1565, and from 1696 until 1898, Guam was under Spanish rule.

Under the Treaty of Paris that ended the Spanish-American War in 1898, the island was ceded to the United States and placed under the jurisdiction of the Department of the Navy. During World War II, Guam was occupied by Japanese forces; the United States recaptured the island in 1944 after 54 days of fighting. In 1950, the island's administration was transferred from the Navy to the US Department of the Interior. Under the 1950 Organic Act of Guam, passed by the US Congress, the island was established as an unincorporated territory of the United States; Guamanians were granted US citizenship, and internal self-government was introduced.

The governor and lieutenant governor have been elected directly since 1970. A 15-member unicameral legislature elected for two years by adult suffrage is empowered to legislate on all local matters, including taxation and appropriations. The US Congress reserves the right to annul any law passed by the Guam legislature, but must do so within a year of the date it receives the text of any such law.

Judicial authority is vested in the district court of Guam, and appeals may be taken to the regular US courts of appeal and ultimately to the US Supreme Court. An island superior court and other specialized courts have jurisdiction over certain cases arising under the laws of Guam. The judge of the district court is appointed by the US president; the judges of the other courts are appointed by the governor. Guam's laws were codified in 1953.

Guam is one of the most important US military bases in the Pacific, and the island's economy has been profoundly affected by the large sums of money spent by the US defense establishment. During the late 1960s and early 1970s, when the United States took the role of a major combatant in the Viet-Nam conflict, Guam served as a base for long-range US bombers on sorties over Indochina. In 2001, there were 3,398 active-duty US military personnel stationed on the island.

Prior to World War II, agriculture and animal husbandry were the primary activities. By 1947, most adults were wage earners employed by the US armed forces, although many continued to

cultivate small plots to supplement their earnings. Since World War II, agriculture has generally contributed less than 1% of the GNP, partly because a considerable amount of arable land is taken up by military installations. Fruits and vegetables are grown and pigs and poultry are raised for local consumption, but most food is imported. Current fish catches are insufficient to meet local demand.

Tourism has become a major industry and sparked a boom in the construction industry in the mid-1980s. The number of visitors grew rapidly from 6,600 in 1967 to around one million per year in the early 2000s, 90% of whom come from Japan. The stagnation in the Japanese economy since the early 1990s slowed the growth of Guam's tourism sector.

The Guam Rehabilitation Act of 1963 has funded the territory's capital improvement program. Further allocations in 1969 and 1977 provided over \$120 million for additional capital improvements and development of the island's power installations. More than \$200 million of federal funds were authorized for typhoon relief in 1977–78. Total expenditures by the government of Guam were \$431 million in 2000; revenues were \$420 million.

Guam's foreign trade usually shows large deficits. The bulk of Guam's trade is with the United States, Micronesia, and Japan.

US income tax laws are applicable in Guam; all internal revenue taxes derived by the United States from Guam are paid into the territory's treasury. US customs duties, however, are not levied. Guam is a duty-free port. In its trade with the US mainland, Guam is required to use US shipping.

Typical tropical diseases are practically unknown today in Guam. Tuberculosis, long the principal killer, was brought under control by the mid-1950s. The Guam Memorial Hospital has a capacity of 192 beds. Village dispensaries serve both as public health units and first-aid stations. In addition, there are a number of physicians in private practice. Specialists from the US Naval Hospital in Guam, assisting on a part-time basis, have made possible a complete program of curative medicine.

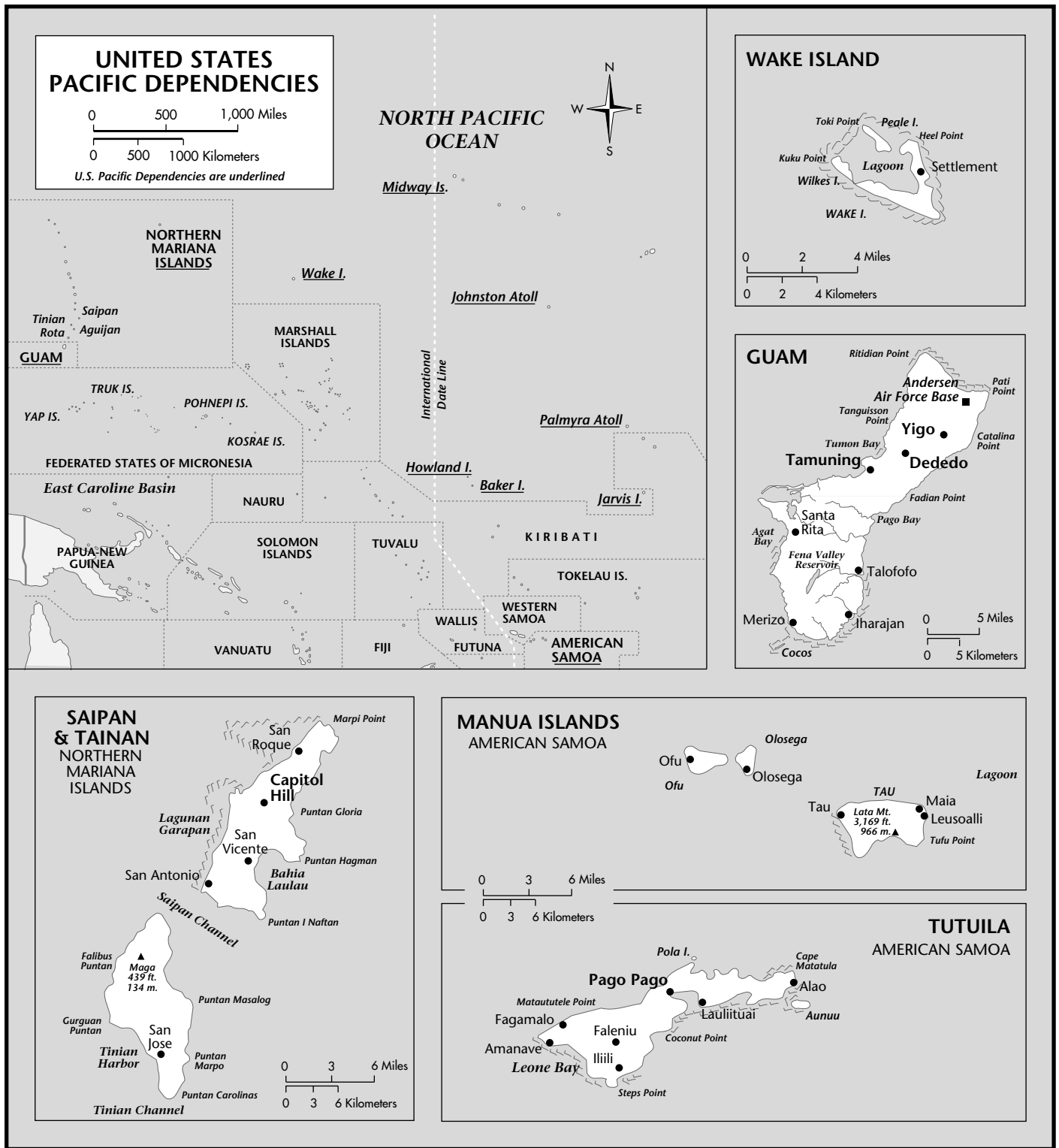
School attendance is compulsory from the age of 6 through 16. In 1998/99, 31,860 pupils were enrolled in public elementary and secondary schools. The University of Guam enrolled 3,748 students in 1998/99, and Guam Community College enrolled 4,404 students in the fall of 1998.

## HOWLAND, BAKER, AND JARVIS ISLANDS

Howland Island (0° 48' N and 176° 38' W), Baker Island (0° 14' N and 176° 28' W), and Jarvis Island (0° 23' S and 160° 1' W) are three small coral islands, each about 2.6 sq km (1 sq mi) in area, belonging to the Line Islands group of the Central Pacific Ocean. All are administered directly from Washington as US unincorporated territories. Public entry is by special permit and generally restricted to scientists and educators. Howland was discovered in 1842 by US sailors, claimed by the United States in 1857, and formally proclaimed a US territory in 1935–36. It was worked for guano by US and British companies until about 1890.

Baker, 64 km (40 mi) S of Howland, and Jarvis, 1,770 km (1,100 mi) E of Howland, also were claimed by the United States in 1857, and their guano deposits were similarly worked by US and British enterprises. The United Kingdom annexed Jarvis in 1889. In 1935, the United States sent colonists from Hawaii to all three islands, which were placed under the US Department of the Interior in 1936 and are administered as part of the National Wildlife Refuge system. Baker was captured by the Japanese in 1942 and recaptured by the United States in 1944. The three islands lack fresh water and have no permanent inhabitants. They are visited annually by the US Coast Guard. A lighthouse on Howland Island is named in honor of the US aviatrix Amelia Earhart, who vanished en route to the island on a round-the-world flight in 1937.





**JOHNSTON ATOLL**

Johnston Atoll, located in the North Pacific 1,151 km (715 mi) sw of Honolulu, consists of two islands, Johnston (16° 44' N and 169° 31' W) and Sand (16° 45' N and 169° 30' W), with a total land and water area of about 2.6 sq km (1 sq mi). The islands are enclosed by a semicircular reef. It was discovered by English sailors in 1807 and claimed by the United States in 1858. For many years, it was worked for guano and was a bird reservation.

Commissioned as a naval station in 1941, it remains an unincorporated US territory under the control of the US Department of the Air Force. In recent years, it has been used primarily for the testing of nuclear weapons.

As of January 2003, there were about 800 people living on the atoll; the population, usually standing at 1,100 government personnel and contractors, decreased significantly after the September 2001 departure of the US Army Chemical Activity

Pacific (USACAP). The atoll is equipped with an excellent satellite and radio telecommunications system.

## MIDWAY

The Midway Islands (28° 12'–17' N and 177° 19'–26' W) consist of an atoll and two small islets, Eastern Island (177° 20' W) and Sand Island (177° 22'–24' W), 2,100 km (1,300 mi) WNW of Honolulu. Total land and water area is 5 sq km (2 sq mi). As of 2002, 40 people made up the staff of the US Fish and Wildlife service on the atoll.

Discovered and claimed by the United States in 1859 and formally annexed in 1867, Midway became a submarine cable station early in the 20th century and an airlines station in 1935. Made a US naval base in 1941, Midway was attacked by the Japanese in December 1941 and January 1942. In one of the great battles of World War II, a Japanese naval attack on 3–6 June 1942 was repelled by US warplanes. Midway is a US unincorporated territory; there is a closed naval station, and the islands are important nesting places for seabirds. In 1993, administrative control of Midway was transferred from the US Department of the Navy to the US Department of the Interior's Fish and Wildlife Service.

## NORTHERN MARIANAS

The Northern Marianas, a US commonwealth in the Western Pacific Ocean, is comprised of the Mariana Islands excluding Guam (a separate political entity). Located between 12° and 21° N and 144° and 146° E, it consists of 16 volcanic islands with a total land area of about 475 sq km (183.5 sq mi). Only six of the islands are inhabited, and most of the people live on the three largest islands—Rota, 85 sq km (33 sq mi); Saipan, 122 sq km (47 sq mi); and Tinian, 101 sq km (39 sq mi).

The climate is tropical, with relatively little seasonal change; temperatures average 21–29° C (70–85° F), and relative humidity is generally high. Rainfall averages 216 cm (85 in) per year. The southern islands, which include Rota, Saipan, and Tinian, are generally lower and covered with moderately heavy tropical vegetation. The northern islands are more rugged, reaching a high point of 959 m (3,146 ft) on Agrihan, and are generally barren due to erosion and insufficient rainfall. Pagan and Agrihan have active volcanos, and typhoons are common from August to November. Insects are numerous and ocean birds and fauna are abundant. The Marianas mallard is a local endangered species.

The Northern Marianas had an estimated population of 77,311 in mid-2002. Three-fourths of the population is descended from the original Micronesian inhabitants, known as Chamorros. There are also many descendants of migrants from the Caroline Islands and smaller numbers of Filipino and Korean laborers and settlers from the US mainland. English is the official language and Chamorro and Carolinian are taught in school. However, only 14% of the population speaks English in the home. About 90% of the people are Roman Catholic.

It is believed that the Marianas were settled by migrants from the Philippines and Indonesia. Excavations on Saipan have yielded evidence of settlement around 1500 BC. The first European to reach the Marianas, in 1521, was Ferdinand Magellan. The islands were ruled by Spain until the Spanish defeat by the United States in the Spanish-American War (1898). Guam was then ceded to the United States and the rest of the Marianas were sold to Germany. When World War I broke out, Japan took over the Northern Marianas and other German-held islands in the Western Pacific. These islands (the Northern Marianas, Carolines, and Marshalls) were placed under Japanese administration as a League of Nations mandate on 17 December 1920. Upon its withdrawal from the League in 1935, Japan began to fortify the islands, and in World War II they served as important military bases. Several of the islands were the scene of heavy fighting during the war. In the battle for control of Saipan

in June 1944, some 23,000 Japanese and 3,500 US troops lost their lives in one day's fighting. As each island was occupied by US troops, it became subject to US authority in accordance with the international law of belligerent occupation. The US planes that dropped atomic bombs on Hiroshima and Nagasaki, bringing an end to the war, took off from Tinian.

On 18 July 1947, the Northern Mariana, Caroline, and Marshall islands formally became a UN trust territory under US administration. This Trust Territory of the Pacific Islands was administered by the US Department of the Navy until 1 July 1951, when administration was transferred to the Department of the Interior. From 1953 to 1962, the Northern Marianas, with the exception of Rota, were administered by the Department of the Navy.

The people of the Northern Marianas voted to become a US commonwealth by a majority of 78.8% in a plebiscite held on 17 June 1975. A covenant approved by the US Congress in March 1976 provided for the separation of the Northern Marianas from the Caroline and Marshall island groups, and for the Marianas' transition to a commonwealth status similar to that of Puerto Rico. The islands became internally self-governing in January 1978. On 3 November 1986, US president Ronald Reagan proclaimed the Northern Marianas a self-governing commonwealth; its people became US citizens. The termination of the trusteeship was approved by the UN Trusteeship Council in May 1986 and received the required approval from the UN Security Council. On 3 November 1986, the Constitution of the Commonwealth of the Northern Marianas Islands came into force.

A governor and a lieutenant governor are popularly elected for four-year terms. The legislature consists of 9 senators elected for four-year terms and 18 representatives elected for two-year terms. A district court handles matters involving federal law and a commonwealth court has jurisdiction over local matters.

The traditional economic activities were subsistence agriculture, livestock raising, and fishing, but much agricultural land was destroyed or damaged during World War II and agriculture has never resumed its prewar importance. Today, government employment and tourism are the mainstays of the economy. Tourism employs about 50% of the work force. The construction industry is also expanding, and there is some small-scale industry, chiefly handicrafts and food processing.

The Northern Marianas is heavily dependent on federal funds. The United States also pays to lease property on Saipan, Tinian, and Farallon de Medinilla islands for defense purposes. The principal exports are garments, milk, and meat; imports include foods, petroleum, construction materials, and vehicles. US currency is the official medium of exchange.

Health care is primarily the responsibility of the commonwealth government and has improved substantially since 1978. Tuberculosis, once the major health problem, has been controlled. There is a hospital on Saipan and health centers on Tinian and Rota. The largest hospital in the commonwealth is a 74 bed, 110,000 square foot facility.

Education is free and compulsory for children between the ages of 8 and 14, and literacy is high. Northern Marianas College had an enrollment of 982 in fall 2001. There are 2 AM, 1 FM, and 1 television stations.

## PALMYRA ATOLL

Palmyra, an atoll in the Central Pacific Ocean, containing some 50 islets with a total area of some 10 sq km (4 sq mi), is situated about 1,600 km (1,000 mi) SSW of Honolulu at 5° 52' N and 162° 5' W. It was discovered in 1802 by the USS *Palmyra* and formally annexed by the United States in 1912, and was under the jurisdiction of the city of Honolulu until 1959, when Hawaii became the 50th state of the United States. It is now the

responsibility of the US Department of the Interior. The atoll is privately owned by the Fullard-Leo family of Hawaii.

Kingman Reef, NW of Palmyra Atoll at  $6^{\circ}25' \text{ N}$  and  $162^{\circ}23' \text{ N}$ , was discovered by the United States in 1874, annexed by the United States in 1922, and became a naval reservation in 1934. Now abandoned, it is under the control of the US Department of the Navy. The reef only has an elevation of 1 m (3 ft) and is awash most of the time, making it hazardous for ships.

## WAKE ISLAND

Wake Island, actually a coral atoll and three islets (Wake, Peale, and Wilkes) about 8 km (5 mi) long by 3.6 km (2.25 mi) wide, lies in the North Pacific 3,380 km (2,100 mi) W of Honolulu at  $19^{\circ}17' \text{ N}$  and  $166^{\circ}35' \text{ E}$ . The total land and water area is about

8 sq km (3 sq mi). Discovered by the British in 1796, Wake was long uninhabited.

In 1898, a US expeditionary force en route to Manila landed on the island. The United States formally claimed Wake in 1899. It was made a US naval reservation in 1934, and became a civil aviation station in 1935. Captured by the Japanese on 23 December 1941, Wake was subsequently the target of several US air raids. It was surrendered by the Japanese in September 1945 and has thereafter remained a US unincorporated territory under the jurisdiction, since 1972, of the Department of the Air Force.

As of October 2001, only around 200 contractor personnel inhabited Wake Island. The island was no longer being used for missile launches by the US Army's Space and Strategic Defense Command. It is a stopover and fueling station for civilian and military aircraft flying between Honolulu, Guam, and Japan.

# UZBEKISTAN

Republic of Uzbekistan  
*Uzbekiston Respublikasi*

**CAPITAL:** Tashkent (Toshkent)

**FLAG:** Horizontal bands of blue (top), white, and green separated by narrow red bands; white crescent moon and twelve stars on the blue band.

**ANTHEM:** The national anthem begins “Serquyosh hur o‘lkam,” (“My country, sunny and free.”).

**MONETARY UNIT:** The som (SOM) is the official currency, introduced when Uzbekistan left the ruble zone in November 1993. SOM1 = \$0.00103 (or \$1 = SOM966.43) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** Independence Day, 1 September.

**TIME:** 5 PM = noon GMT.

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

Uzbekistan is located in central Asia bordering the Aral Sea, between Kazakhstan and Turkmenistan. Comparatively, it is slightly larger than the state of California, with a total area of 447,400 sq km (172,742 sq mi). Uzbekistan shares boundaries with Kazakhstan on the N, Kyrgyzstan and Tajikistan on the E, Afghanistan on the S, and Turkmenistan on the SW. Uzbekistan's boundary length totals 6,221 km (3,866 mi). Its capital city, Tashkent, is located in the eastern part of the country.

## <sup>2</sup>TOPOGRAPHY

Uzbekistan consists of mostly flat to rolling sandy desert with dunes. The Fergana Valley lies in the east surrounded by mountainous Tajikistan and Kyrgyzstan. The Aral Sea lies in the northwest. There is semiarid grassland in the east. About 11% of Uzbekistan's land is arable, most of which is under irrigation.

## <sup>3</sup>CLIMATE

The climate is mid-latitude climatic desert. Temperatures range from 26° to 32°C (79° to 90°F) in the summer, with much higher figures in the desert. Average winter temperatures are between -6° and 2°C (21° to 36°F). There is very little rainfall in the country. The best watered areas only receive about 30 cm (12 in) annually.

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

Ecological damage has left much of the country devoid of animal life. The country, a member of the former Soviet Union, was part of Nikita Krushchev's 1954 “Virgin-Lands” plan. Khrushchev wanted Soviet farmers to grow cotton and grain on the steppes of Uzbekistan. At one point the country grew 70% of the Soviet Union's cotton. Unfortunately the farmers had to irrigate the crops to obtain meaningful results. Now the Amu Darya and Syr Darya rivers run dry in certain places. Half of the Aral Sea is now a dry lake bed and the land is poisoned from the overuse of fertilizer.

## <sup>5</sup>ENVIRONMENT

Uzbekistan's main environmental problems are soil salinity, land pollution, and water pollution. In 1992, Uzbekistan had the world's 27th highest level of carbon dioxide emissions, which totaled 123.5 million metric tons, a per capita level of 5.75 metric tons. In 1996, the total dropped to 94.9 million metric tons. Chemicals used in farming, such as DDT, contribute to the pollution of the soil. Desertification is a continuing concern.

The nation's forestlands are also threatened and continue to dwindle. Between 1990-1995, deforestation occurred at an annual average rate of 2.65%.

The country's water supply also suffers from toxic chemical pollutants from industrial activity as well as fertilizers and pesticides. Uzbekistan has 16.3 cu km of renewable water resources, with 94% used for farming and 2% used for industrial purposes. The Aral Sea has been drying up and, as a result, pesticides and natural salts in its water have become increasingly concentrated. The nation's cities produce an average of 45.8 million tons of solid waste per year.

As of 2001, only 1.8% of Uzbekistan's total land area is protected. In 2001, 7 mammal species and 11 bird species were threatened with extinction. Threatened or rare species include the markhor, Central Asia cobra, Aral salmon, slender-billed curlew, and Asiatic wild dog. The Jeseter hladky has become extinct.

## <sup>6</sup>POPULATION

The population of Uzbekistan in 2003 was estimated by the United Nations at 26,093,000, which placed it as number 39 in population among the 193 nations of the world. In that year approximately 4% of the population was over 65 years of age, with another 38% 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 1.51%, with the projected population for the year 2015 at 30,718,000. The population density in 2002 was 57 per sq km (147 per sq mi). The population is most dense in the Fergana Valley.

It was estimated by the Population Reference Bureau that 37% of the population lived in urban areas in 2001. The capital city, Tashkent, had a population of 2,140,000 in that year. Samarkand had a population of about 370,000. According to the United Nations, the urban population growth rate for 2000–2005 was 1.6%.

## 7 MIGRATION

Emigration to other former USSR republics exceeded immigration by 328,200 during 1979–90. In 1991, an estimated 400,000 Russians departed from Uzbekistan. As of 1996, 250,000 Crimean Tatars had left Central Asia for the Ukraine; most these Tatars were from Uzbekistan. In 1999, there were an estimated 30,000 Tajik refugees and 8,000 Afghan refugees living in Uzbekistan; however, only 1,135 refugees and asylum seekers were registered with UNHCR. Up until 1999, refugees and asylum seekers were assigned no special status and were considered ordinary foreigners. However, in 1999 the government completed a draft of the Migration Law, which passed the Cabinet of Ministers. In 2000 the net migration rate was -0.7 migrants per 1,000 population. In that year there were 1,367,000 migrants living in Uzbekistan, including the remaining refugees. The government views the emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

In 1996, 80% of the population was Uzbek. Russians constituted 5.5%; Tajiks made up 5%; Kazakhs accounted for 3%; Karakalpakhs for 2.5%; Tatars 1.5%; and others 2.5%.

## 9 LANGUAGES

Uzbek, the state language, was the most widely spoken non-Slavic tongue in the USSR. It is a Turkic language with six vowels—virtually identical to those of Tajik, which has surely influenced it—rather than the original eight or nine. In 1993, it was decided that the language would be written in the Roman alphabet rather than in the Cyrillic alphabet. In 1999, Uzbek was spoken by 74.3% of the population in Uzbekistan; Russian was spoken by 14.2%; Tajik by 4.4%; and other various languages by 7.1%.

## 10 RELIGIONS

Freedom of religion is guaranteed under the constitution of 1992, adopted after independence, and there is a specific provision prohibiting the establishment of any state religion. Ethnic Uzbeks are primarily adherents of the Hanafi sect of Sunni Islam, but the Wahhabi sect has flourished as well in recent years. Muslims account for about 88% of the population; Eastern Orthodox Christians for 9%; and others for 3%. In 2002 Uzbekistan had a significant Jewish population of some 30,000 Ashkenazi and Bukharan Jews, primarily in the cities of Tashkent, Bukhara, and Samarkand. Almost 70,000 Jews have emigrated to Israel or the US since independence. Other minority religions include small communities of Korean Christians, Baptists, Roman Catholics, Lutherans, Seventh-Day Adventists, Evangelical and Pentecostal Christians, Buddhists, Baha'is, and Hare Krishnas.

## 11 TRANSPORTATION

Uzbekistan has some 3,656 km (2,272 mi) of railroad track in common carrier service (not including industrial lines); separate lines serve eastern and western regions. In 2002, there were also 81,600 km (50,706 mi) of highways, of which 71,237 km (44,227 mi) are hard-surfaced. As a doubly landlocked nation, there is no direct connection to the open sea; the closest route to the sea is to the south through Termiz on the Afghanistan border. Conflict in Afghanistan blocks this route. The Zeravshan River is the largest inland waterway. Uzbekistan had 267 airports in 2001, 10 with paved runways. In 2001, a total of 2,256,400

passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Some parts of present-day Uzbekistan have been inhabited since the Paleolithic era. The first states in the region were Khwarazm, Bactria, Sogdiana, and the Parthian Empire, in the first millennium BC. The territory was consolidated under the Achaemenids in the 6th century BC, until it was conquered by Alexander the Great, 329–327 BC. The Greeks were displaced by the Tochari in the 3rd century BC. From the 1st century BC to the 4th century AD Uzbekistan was part of the Kushana Kingdom. This in turn was replaced by the Ephthalite state.

In the 6th century the area was part of the West Turkic Kaganate, a loose confederation of largely nomadic tribes. By the 8th century the region was conquered by the Arabs, who introduced Islam. The Umayyid dynasty was displaced by the Abbasids in 747–750. In the 9th century the Samanids took control of most of Central Asia, including Uzbekistan. Turkic tribes again began to push into the area from the east in the 10th century, eventually forming the Karakhanid state. A lesser part of that state, Khwarazm, grew more powerful in the 12th century and came to dominate most of Central Asia.

Genghiz Khan's Mongols invaded in 1219, conquering all of Central Asia by 1221. In 1224 Genghiz Khan's son Chagatai was made ruler of this area. As Chingisid influence waned, Timur (Tamerlane, 1336–1405) established an empire in Samarkand. Upon his death it split into Khorasan, ruled by his son Shah Rukh, and Mawerannahr, ruled by his grandson, Ulgh Beg. Although Timur is now claimed as the father of the modern Uzbeks, more likely candidates are the Sheibanid, nomadic Uzbeks who fought to take the area in the early 16th century. They settled among the other populations and became farmers, making Bukhara their capital.

In the 16th century Khwarazm, Balkh, and Khiva separated from Bukhara, becoming separate principalities. Bukhara was conquered by Persia in 1740, but sovereignty was retaken soon after by the Mangyt dynasty, which ruled until 1920. In the early 19th century the Kokand Khanate grew powerful in the eastern part of present-day Uzbekistan.

Russia had begun trading with Bukhara, Khiva, and Kokand in the 18th century. Concern about British expansion in India and Afghanistan led eventually to Russian conquest, which began in the 1860s and ended in the 1880s, when Uzbekistan became part of Turkestan guberniia, with Bukhara and Khiva administered as separate emirates under Russian protection.

In 1916 Tsar Nicholas II issued a call for Central Asian males to be drafted into labor battalions. This sparked resistance throughout the region, including in Uzbekistan, which was violently repressed. During the conflict from 1917–1920, Uzbekistan was the site of competing attempts to create governments; the Bolsheviks announced a short-lived Turkestan Autonomous Republic, while a Muslim Congress also attempted an Autonomous Government of Turkestan. Red Army forces intervened savagely, but armed resistance continued as late as 1924, in the so-called Basmachi Rebellion.

The Uzbek Soviet Socialist Republic was created in 1925. In 1929, Tajikistan, which had been an administrative sub-unit, was elevated to full republic status, changing the boundaries. They were changed once again in 1936.

Under the leadership of long-time leader S. Rashidov, Uzbekistan was politically conservative during the 1970s and early 1980s. The republic was targeted for anti-corruption purges in the mid-1980s, when considerable fraud in the cotton industry was discovered. The leader as of 2003, Islam Karimov, was appointed by Moscow in 1989.

In March 1990, Karimov was elected to the newly created post of president by the Uzbek Supreme Soviet. Uzbekistan declared



LOCATION: 41°0' N; 64°0' E. BOUNDARY LENGTHS: Afghanistan, 137 kilometers (85 miles); Kazakhstan, 2,203 kilometers (1,369 miles); Kyrgyzstan, 1,099 kilometers (683 miles); Tajikistan, 1,161 kilometers (722 miles); Turkmenistan, 1,621 kilometers (1,007 miles).

independence on 1 September 1991, in the aftermath of the abortive Moscow coup of 19–21 August. Karimov's presidency was reaffirmed in an election in December 1991. Since then, however, Karimov has been increasingly hostile to even the most basic tenets of democracy. True opposition parties were banned in 1992 and political reformers have been jailed or have fled the country. Parliamentary elections to the 250-seat Majlis were held on 24 December 1994 and 15 January 1995, with 231 seats going to Karimov's People's Democratic Party—the former Uzbek Communist Party. Following the elections, President Karimov held a referendum that extended his presidency until 2000.

Despite his anti-democratic leanings, Karimov received little criticism from the West or from Russia (which, in fact, supplies him with ample military backing) since he had been seen as a buffer against the fundamentalist Muslim political and revolutionary movements in Central Asia—notably those in Afghanistan and in neighboring Tajikistan. In fact, Uzbekistan had supplied arms to the secular factions in both countries' civil wars.

The Islamic Movement of Uzbekistan (IMU), a radical Islamic organization seeking to establish an Islamic state in Central Asia, has long been operational in Uzbekistan. In February 1999, five

car bombs in Tashkent were attributed to the IMU by Karimov, who accused the group of attempting to assassinate him and destabilize the country. The IMU broadcast a declaration of jihad from a radio station in Iran, and demanded the resignation of the Uzbek leadership. That year, IMU fighters operating from mountain hideouts launched a several-year series of engagements with government forces. Militants also took foreigners hostage in 1999 and 2000, including four US citizens who were mountain climbing in August 2000, and four Japanese geologists and eight Kyrgyzstani soldiers in August 1999. IMU military leader Juma Namangani apparently was killed during a US-led air strike in Afghanistan in November 2001. In addition to the IMU, the Hizb-ut-Tahrir ("Freedom Party"), another radical Islamic organization, operates in the country, although, unlike the IMU, it does not use violent tactics to pursue its goals. Following the 11 September 2001 terrorist attacks on the United States, and its subsequent military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces, all radical Islamic groups in the Central Asian nations were linked by most governments to terrorism.

Uzbekistan offered its airbases to the US-led coalition for its campaign in Afghanistan beginning in October 2001. In

response, the United States provided the country with \$60 million for 2002, in addition to a one-time contribution of \$100 million.

On 27 January 2002, Karimov held another referendum to prolong his presidential term from 5 to 7 years, effectively keeping himself in power until 2007. The US Department of State refused to send election observers, arguing there had to be a “free and fair” presidential election before a referendum was valid.

### 13 GOVERNMENT

The state constitution adopted on 8 December 1992 mandates a civil democratic society. The executive branch consists of the president and his appointed prime minister and Cabinet of Ministers. During the Soviet years, the legislative branch consisted of a unicameral Supreme Soviet of 150 seats. The judicial branch is appointed by the president, subject to legislative confirmation, for 5- and 10-year terms. The Supreme Assembly replaced the Soviet-era legislature and has 250 members with members serving five-year terms. On 27 January 2002, a referendum was held that will make the Assembly bicameral in the 2004 elections. The last elections were held 5 and 19 December 1999. Not all of the seats in the Supreme Assembly election were contested, and all parties in the Assembly support President Islam Karimov. In 1992, President Karimov banned opposition parties. The president is the head of state and has responsibility for the functioning of the other branches of government as well as for making sure the constitution is observed. He essentially rules by decree. Karimov held referendums extending his presidency in 1995 and 2002, taking 92% of the vote in 2002. The president is currently elected for a seven-year term.

### 14 POLITICAL PARTIES

In the Soviet period, the only legal political party was the Communist Party. As Soviet control began to disintegrate in 1989–90, a number of mass-based “informal organizations” appeared which grew to be the equivalents of parties, although not all were legally registered. The largest, claiming as many as 100,000 members, was *Birlik* (Unity), founded by Abdurakhim Pulatov in 1989. *Erk* (Freedom) was founded in 1990 by Muhammad Solih, who split away from *Birlik*; in 1991, Solih was a candidate for president, drawing approximately 12% of the vote. Another group, never legally registered, was the Islamic Renaissance Party.

After independence President Islam Karimov began to establish strong authoritarian control. Political opposition was forbidden. Opposition leaders have been beaten, jailed, and exiled. There were five registered parties as of 2003, but their platforms are essentially identical, and all parties with seats in parliament support the president. The People’s Democratic Party (NDP) is the renamed Communist Party. Also registered were the Fatherland Progress Party (VTP); the Adolat (Justice) Social Democratic Party; the Democratic National Rebirth Party; and the Self-Sacrificers Party (the Fatherland Progress Party recently merged with Self-Sacrificers Party).

A political pressure group, the *Erk* (Freedom) Democratic Party, was reformed as a pro-Karimov party after repudiating its founder, Muhammad Solih, who was forced into political exile. Another pressure group, the *Birlik* (Unity) Movement was officially banned in mid-1993, but continued to exist.

### 15 LOCAL GOVERNMENT

The republic is divided into 12 oblasts, or provinces. There is also the autonomous Republic of Karakalpakstan, which has the right of legal secession, though is unlikely to exercise it. Administration is performed by locally elected councils, overseen by presidential appointees.

An April 1999 decree by Karimov granted *mahallas*, the smallest communal or neighborhood units in Uzbekistan, a

greater level of autonomy than they previously had. The *mahallas* are traditional institutions charged by law with regulating communal life, and carrying out many state functions, such as community policing, political surveillance, and distributing social welfare payments. This increase in decentralization for the *mahallas* has been welcomed by non-governmental organizations (NGOs) attempting to provide assistance to the *mahallas* and to strengthen the participation of communities in political, economic, and social matters.

### 16 JUDICIAL SYSTEM

The Soviet judiciary system, featuring trials by panels of three judges, still prevails. There are three levels of courts: district courts (people’s courts) at the lowest level, regional courts, and the Supreme Court. District court decisions may be appealed through the higher levels. Under the constitution, the president appoints judges for five-year terms. There are also town, city, Tashkent city courts and arbitration courts appointed for five-year terms.

The judicial system also consists of a constitutional court, higher economic court, and economic court of the republic. The constitutional court judges the constitutionality of laws and acts passed by the Supreme Assembly, the decrees issued by the president, government enactments and ordinances of local authorities. It is also responsible for interpreting the constitution.

The Supreme Court’s rulings are final and binding. It is the highest judicial body of civil, criminal, and administrative law.

Defendants have the right to an attorney and most trials are open to the public. In political cases, the judiciary may experience pressure from the government.

### 17 ARMED FORCES

Total armed forces numbered approximately 50,000–55,000 in 2002. The army numbered 40,000 armed with over 300 main battle tanks. The air force numbered between 10,000 and 15,000 and operated 135 combat aircraft and 452 attack helicopters. In addition, there were about 18,000–20,000 internal security forces and a national guard of 1,000 organized into a single brigade. Government troops faced opposition from an estimated 2,000-member Islamic Movement of Uzbekistan. The defense budget for 1997 was \$200 million or 1.4% of GDP.

### 18 INTERNATIONAL COOPERATION

Uzbekistan was admitted to the UN on 2 March 1992. It is also a member of the Asian Development Bank, ESCAP, OSCE, EBRD, FAO, IAEA, IMF, UNCTAD, UNESCO, WHO, and the World Bank. It has observer status with the WTO. The country has signed the Nuclear Non-proliferation Treaty and is a member of the CIS. It has close ties with the United States, Austria, South Korea, Malaysia, Indonesia, and Turkey. The United States established formal ties with Uzbekistan in February 1992.

In June 2001, leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan met in China to launch the Shanghai Cooperation Organisation (SCO) and sign an agreement to fight ethnic and religious militancy while promoting trade.

### 19 ECONOMY

Although characterized by one of the lowest per capita incomes in the Central Asian and other post-Soviet republics, Uzbekistan’s rich reserves of gold, oil, natural gas, coal, silver, and copper provide a promising endowment for future development. As a major source of cotton for the textile industry in the former USSR and the world’s third largest cotton producer, Uzbekistan has a predominantly agricultural economy. Agriculture and agro-processing accounted for about half of GNP in 1996. In addition, much of the industrial production is linked to agriculture, including cotton harvesting equipment, textiles, and chemical

fertilizers and pesticides. Only 12% of Uzbekistan's total cotton production and 60% of its silk cocoons were processed locally in the early 1990s, reflecting the country's principal role as supplier of raw material goods for downstream manufacturing elsewhere in the former USSR.

Uzbekistan has a centrally planned economic structure in which most production and employment remains in the state sector, and all health, education, social security, and welfare services are provided by the government. Measures taken toward establishing a greater market orientation within the economy have been more cautious than in many other post-Soviet countries. A differentiated process of price control liberalization was applied to the wholesale and retail sectors in 1991 in an attempt to avoid socially destabilizing surges in consumer prices. Nevertheless, inflation ran 790% in retail prices and 2,700% in wholesale prices in 1992; by the end of the year, real wage earnings had declined by 56%. The disruption of trading arrangements with former Soviet republics and the cessation of transfers from the Union's central government is evident in the erosion of other major economic indicators since 1990. In addition to a seriously deteriorating fiscal balance, estimated GDP shrank by 17% between 1991 and 1994. Following a breakdown in agreements over the conditions of a new ruble zone with Russia and other CIS countries, Uzbekistan adopted its own currency, the som, in late 1993.

When it became apparent that the slow pace of economic reform was not working, the government increased efforts to move from a command-driven to a market-oriented economy. Reforms included tighter monetary policies, cooperation with international financial institutions, increased privatization of state owned enterprises, and an improved environment for foreign investors. In response, the economy slowed its decline to 1% in 1996 and the inflation rate dropped to 35%, down from 1,300% in 1994. Additional reforms announced in 1996 aimed at increasing the private sector's share of GDP to 60%.

In 1999, the state continued to dominate the economy. GDP grew by 2.5% in 1997, and 4.4% in 1998, despite the Russian and Asian financial crises. Inflation was at 71% in 1997, but fell to 29% in 1998. In 1999 growth was 4.1% and in 2000 4%, while inflation persisted at annual rates of 29% and 26% respectively. Continued inflation and a growing debt burden combined with the global economic slowdown in 2001 to reduce real growth to 3%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Uzbekistan's gross domestic product (GDP) was estimated at \$62 billion. The per capita GDP was estimated at \$2,500. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2001 was 23%. 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 33% of GDP, industry 24%, and services 43%. Foreign aid receipts amounted to about \$6 per capita and accounted for approximately 1% of the gross national income (GNI).

Approximately 34% of household consumption was spent on food, 13% on fuel, 4% on health care, and 7% on education. The richest 10% of the population accounted for approximately 32.8% of household consumption and the poorest 10% approximately 1.2%. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

The labor force was estimated at 11.9 million in 1998. As of 1995, agriculture and forestry engaged 44% of the labor force, services, 36%, and industry 20%. In 1999, unemployment stood at 10%, with another 20% of the workforce underemployed.

The labor code adopted in 1992 recognizes the right for all workers to voluntarily create and join unions, which may in turn associate with international affiliations. Unions also were granted independence from government administrative and economic bodies (except where provided by law), and were encouraged to develop their own charters, structure, and executive bodies. However, as of 2002, the union structure remained the same as under Soviet rule. There were no independent unions.

The standard workweek is 41 hours, and minimum wages are set by the Ministry of Finance. As of 2002, the minimum wage was about \$3.00 per month. Some factories have reduced work hours to avoid layoffs, and overtime pay is rarely given. The minimum working age is 16, although 15-year-olds may work a shorter workday. The Labor Ministry has an inspection service to enforce compliance with this requirement. The Labor Ministry also inconsistently enforces occupational health and safety regulations, many industrial plants continue to be hazardous, and most workers lack protective clothing and equipment.

## 22 AGRICULTURE

Uzbekistan was the former Soviet Union's largest producer of fruits and vegetables. About 15% of the total area is crop land. In 2001, about 33% of GDP and 42% of exports came from agriculture.

During the Soviet era, cotton was grown on almost half of all sown land. Cotton is grown in the crescent beginning in the Fergana Valley and extending south along the Tien Shan Mountains to Samarkand and Bokhara, and then west along the Amu Darya River. All cotton is flood irrigated. Plantings are generally in April, with the harvest coming in late August or early September. Fields are usually planted with alfalfa or corn every four or five years, but many fields are planted without rotation, leading to declining yields. Since independence, Uzbekistan has embarked on a policy to diversify agriculture; annual cotton lint production was 1.1 million tons in 1999. Almost 40% of the gross value of agricultural production is derived from cotton; Uzbekistan was the world's fifth-largest producer of cotton lint in 2001/02 (after China, the United States, India, and Pakistan), accounting for 5% of world supply, but cotton production declined severely in 1999, and worldwide prices dropped as well, causing serious strain in this important segment of the Uzbek economy.

Rice, wheat, barley, and corn are important grain crops. Rice is produced on 48 specialized state farms, and about 85% of the rice crop comes from the southwestern part of Karakalpakistan and the Khorezm region. In 1999, over 4.3 million tons of cereals were produced. Sesame, tobacco, onions, flax, and various fruits are also grown.

## 23 ANIMAL HUSBANDRY

Sheep are the main livestock product, with Karakyl sheep (noted for their black wool) raised in the Bukhara region. The livestock population in 2001 included 8.1 million sheep, 5.3 million head of cattle, 830,000 goats, 89,000 pigs, 165,000 donkeys, 150,000 horses, 28,000 camels, and about 14 million chickens. Meat production that year totaled 512,000 tons, of which 77% was beef, 17% was mutton, 3% was pork, and 3% was poultry. Wool (greasy) production in 2001 was estimated at 15,900 tons. Mulberry trees have been grown for silkworm breeding since the 4th century; some 1,200 tons of silk were produced in 2001.



## 24 FISHING

Fishing occurs mainly in the Fergana Valley. The Aral Sea in the north (the world's fourth-largest lake) is too saline and becoming more so, especially since its water surface area has decreased by 33% since 1960. The total catch in 2000 was 3,837 tons, primarily carp.

## 25 FORESTRY

Forests make up 4.8% of the total land area, mostly in the Fergana Valley and Zeravshan regions. Commercial forestry is not a significant part of the economy. Uzbekistan imported \$37.2 million in forestry products during 2000.

## 26 MINING

The mineral sector remained one of the chief contributors to the country's economic development. Along with natural gas and uranium, in which Uzbekistan was a world leader, and crude oil, in which it was self-sufficient, the country was significant to world mineral markets as a gold producer—it has, at times, been a world leader. Gold was the second-leading export commodity in 1998, providing 9.6% of export earnings; mineral fertilizers and ferrous metals ranked fourth and fifth, respectively, among export commodities. Production of fertilizers was an important part of the domestic chemical industry, as fertilizers were used for the production of cotton. Uzbekistan's fourth-, fifth-, and sixth-leading industries in 2002 were, respectively, metallurgy, natural gas, and chemicals manufacture.

Uzbekistan produced 62,276 kg of gold in 2000, and 80,000 in 1998. Uzbekistan also mined copper (91,800 tons in 2000), molybdenum, silver, and tungsten. Copper, molybdenum, and lead-zinc were mined at the Almalyk mining and metallurgical complex, Uzbekistan's major nonferrous-metals-producing enterprise, northeast of Tashkent; the complex had the capacity to mine and process 25 million tons per year of ore. No bismuth, cadmium, lead, palladium, tin, or zinc was mined in 1997–2000; it appeared that mining operations have been curtailed sharply or have ceased. Control of one of the main lead-mining deposits, Altyń-Topkan, in the Kurama mountain range, was transferred to Tajikistan in 1999. Uzbekistan also produced cement, kaolin clays (5.3 million tons in 2000, with a total capacity to produce 8 million tons per year), feldspar, graphite, iodine, mineral fertilizer, nitrogen, phosphate rock, and sulfur. No fluorspar was produced in 1999 and 2000; total production capacity was 150,000 tons per year. Uzbekistan also manufactured copper, gold, lead, molybdenum, silver, steel, tungsten, and zinc metals.

Uzbekistan's explored resources of gold were 5,300 tons; the main reserves, amounting to 3,200 tons, were in the central Kyzylkum region, containing the Muruntau deposit (2,230 tons), the largest gold deposit in Eurasia and among the largest in the world; Muruntau's milling operation, near Zarafshan, processed more than 22 million tons per year of ore. Zeravshan—a 50–50 joint venture of an Uzbek government conglomerate and Newmont Corp., of the US, the leading foreign investor in Uzbekistan's gold industry—produced 15.4 tons in 2000—from gold-bearing tailings from the Muruntau operation—down from 16.7 in 1999. The drop was a result of lower gold content in the material received by the plant.

## 27 ENERGY AND POWER

Uzbekistan is one of the ten largest producers of natural gas in the world. In 2000, production totaled 56.3 billion cu m (1.99 trillion cu ft); proven reserves, in 12 major deposits, amounted to as much as 1.9 trillion cu m (67 trillion cu ft) at the start of 2002, located mainly in the western Qizilkum Desert.

At the beginning of 2002 Uzbekistan's proven oil reserves were estimated at 594 million barrels. Oil production in 1999 amounted to 213,000 barrels per day, mostly from the wells in

the Fergana Valley. Since 1991, Uzbekistan has more than doubled its oil production to become essentially self-sufficient in petroleum and, since 1996, a net exporter of petroleum as well. Hydroelectric stations on the Syr Darya, Chirchik, and Naryn rivers depend largely on Kyrgyzstan and Tajikistan for their power. In 2001, total installed electrical capacity was 11,711,000 kW. Production in 2000 came to 44,300 million kWh, of which 87% was from fossil fuels and 13% from hydropower. Consumption of electricity in 2000 was 41.9 billion kWh. Brown coal deposits at the head of the Angren Valley, southeast of Tashkent, are used for local electricity generation. About 3.2 million tons of coal were produced in 2000.

## 28 INDUSTRY

Growth of Uzbekistan's industrial production averaged 3.2% in the 1980s, although on a per capita basis, the republic's industrial output remained less than half that of the USSR average by the end of the decade. Most industry is based on the processing of local agricultural products. Soft goods (mainly cotton, wool, and silk fiber) and processed foods (including cottonseed oil, meat, dried fruit, wines, and tobacco) accounted for about 39% and 13% of industrial production respectively in 1990; their manufacture was concentrated in Tashkent and the Fergana Valley.

Uzbeklegprom, the state association for the production of light industry goods, produces about 90% of Uzbekistan's textiles. Production figures fell from 700 million sq m in 1993 to 650 million sq m in 1995, when total textile production was valued at \$510 million. In the late 1990s, Uzbeklegprom sought to boost capacity with the assistance of several joint venture partners. Investment projects such as the \$194 million investment Korean Kabul Textiles and those by Turkish firms "Astop" and "Tekfen" have begun to modernize cotton processing, although most textiles mills continue to use outdated machinery with technology from the 1970. The investment cost of updating the entire industry was estimated at between \$500 million and \$1 billion.

Food processing is Uzbekistan's second-largest industry, based on the country abundant production of fruits and vegetables. The sector is also in need of investment to modernize its processing and packaging equipment.

Uzbekistan's machinery industry is the primary producer of machines and heavy equipment in Central Asia. Uzavtosanoat is the cornerstone of the country's automotive industry, and has developed joint ventures with Daimler-Benz (Germany) and Daewoo (ROK). The UzDaewoo-Avto plant in Andizhan began production in 1996 and produces 200,000 units annually. Two kinds of cars, the Nexia and the Tico, and a microbus called the Damas are the main models produced.

The aerospace industry centers around the Chkalov Tashkent Aircraft Production Co., a government-controlled enterprise that is one of the largest and most significant aircraft assembly plants in Central Asia. Equipment used on the *Salyut* and *Mir* space stations were some of the products of the program, which also includes explorations of the Moon, Mars and Venus. Of more practical use have been developments in satellite imaging and communications.

Metal processing industries are clustered in the Olmaliq-Oharangan (Almalyk-Akhangaran) complex, southeast of Tashkent. Metal alloys, wire, rods and sheet and gas-based nitrogen are manufactured in Chirchik, close to the Kazakhstan border in the northeast. Chemical fertilizers used mainly in cotton production are also produced in the Chirchik.

Uzbekistan has three oil refineries, at Fergana, Alty-Arik, and Bukhara. The 50,000-barrels-per-day-capacity facility at Bukhara was built after the breakup of the Soviet Union at a cost in excess of \$400 million, and is expected to be expanded to a capacity of 100,000 barrels per day, with the ability to handle both crude oil and gas condensate. In 2001, however, the refineries were

operating well below capacity because of the decline in the Uzbekistan's oil production.

### 29 SCIENCE AND TECHNOLOGY

The Uzbek Academy of Sciences, headquartered in Tashkent, has departments of physical-mathematical sciences; mechanics; control processes; informatics; chemical-technological and earth sciences; and biological sciences. Uzbekistan has 45 research institutes conducting research in agriculture and veterinary sciences, technology, natural sciences, and medicine. Twenty-three colleges and universities offer scientific and technical training. In 1987–97, 1,763 scientists and engineers and 314 technicians per 1 million population were engaged in research and development.

### 30 DOMESTIC TRADE

Although dominated by state-owned stores and distribution channels under the Soviet economy, retailing has seen a marked shift toward private business. Since 1992, thousands of small businesses have been privatized or leased to worker collectives, with the most progress in retail trade, consumer services, public catering, and local industry. However, the shift from state-control to a free market economy continues to move at a very slow pace. Urban markets provide an important outlet for the sale of vegetables and other foodstuffs. Government restrictions on trade and foreign investment have hindered the economy. Black market trade is still available.

### 31 FOREIGN TRADE

While supplying the former USSR with light industry goods (mainly cotton fiber), basic equipment related to agriculture and agricultural processing, and some oil, Uzbekistan has been highly dependent on the other former Soviet republics for critically needed grain, food, machinery, and other industrial inputs.

In 1998, exports included cotton, gold, natural gas, fertilizers, ferrous metals, textiles, food products, and automobiles. Imports included grain, machinery and parts, consumer durables, and foods.

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	472	529	-57
Tajikistan	181	339	-158
Turkmenistan	155	7	148
Italy	148	74	74
Korea	129	422	-293
Germany	117	304	-187
France	88	152	-64
Kazakhstan	60	164	-104
United States	31	162	-131
Ukraine	27	153	-126

### 32 BALANCE OF PAYMENTS

Uzbekistan was extremely reliant on cotton exports as a means of trade throughout its association with the former USSR, but earnings fluctuated widely from year to year depending on the performance of the agricultural sector. Exports of natural gas and petroleum generated much needed hard currency reserves within the next several years. Uzbekistan received substantial financial support from the World Bank, IMF, and other multilateral lending institutions. Proceeds were used to finance the cotton industry and oil and gas development, to provide a social safety net, to maintain the water supply, and to further privatization efforts.

The country lost almost half of its foreign exchange reserves in 1996, after the government imposed strict currency controls. As of the early 2000s, Uzbekistan was able to maintain reserve levels

at or close to \$1.2 billion, in large measure by restricting imports. Exports dropped as well, and as a result of this decline in trade, Uzbekistan managed to achieve a modest balance of payments surplus of \$359 million in 1999. The country's external debt stood at \$5.1 billion in 2001. Many creditors reassessed their lending to Uzbekistan due to this high debt burden, and foreign investment declined.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Uzbekistan's exports was \$2.8 billion while imports totaled \$2.5 billion resulting in a trade surplus of \$300 million.

### 33 BANKING AND SECURITIES

After 1993, the banking system was headed by the now-defunct National Bank of Uzbekistan, the former local branch of the Soviet Gosbank. The NBU attempted to increase its supervision over Uzbekistan's banks, the most important of which are state-owned. In 2002, the Central Bank of Uzbekistan (CBU) was in charge of the country's two-tier banking system, and had the responsibility of issuing soms, the country's currency unit, and regulating the commercial banks by setting reserve requirements and the discount rate. The other important state bank was the Uzbek National Bank of Foreign Economic Activities (NBU), which dealt exclusively with the foreign exchange rate.

There were increasing hints from the government that the banking sector is in trouble. The first indicator of a banking crisis came with the sudden and unpublicized sacking in January 1997 of Ahmat Ibotov, the head of Promstroi Bank, the second-largest bank in Uzbekistan after the NBU. Then, on 26 February 1997, President Karimov launched a scathing attack on the country's banks, accusing them of being corrupt and bureaucratic. The president also blamed the banks for maintaining excessively high interest rates. The CBU has also recently criticized the banks for poor credit risk evaluation and poor procedures over the issuing of bank guarantees. Commercial banks in the country include the Uzbek Commercial Bank and the Uzbek Joint-Stock Innovation Bank. The country does not have a security market, but the trading of commodities is widely practiced in the country.

In 1996, the authorities closed three banks, all supposedly for breaching lending limits set by the CBU. One of the main problems in the banking sector is over-concentration. The three largest banks, all of which are state-owned, control 86% of commercial banks' assets. The main culprit is the NBU, which accounts for 45% of assets.

### 34 INSURANCE

Among the insurance companies doing business in Uzbekistan in 1997 were: GOSSTRAKH State Insurance Company of the Republic of Uzbekistan; JV, UMID Joint-Stock Insurance Co.; MADAD Joint-Stock Insurance Agency; and Uzbekinvest National Insurance Co. of the Republic of Uzbekistan, which is government-owned.

### 35 PUBLIC FINANCE

Uzbekistan's spiraling inflation as a member of the ruble zone necessitated the introduction of a transition currency after it left the ruble zone in November 1993. In 1994, the government undertook economic reforms, but privatization efforts have fallen short of expectations. Subsidies for basic consumer goods (except some food staples and energy products) and subsidized credit to industrial enterprises were substantially reduced during 1994 and 1995. In response, the budget deficit fell from a high of 16% of GDP in 1993 to 3.3% in 1995, but had escalated to nearly 7% by 1997. The external debt, \$1.5 billion at the end of 1994, more than doubled to \$3.3 billion by 1997. An enterprise profit tax, a value-added tax, and an excise tax on cotton supply the bulk of government revenues.

The government is officially committed to a gradual transition to a free-market economy, but is cautious in the actions it takes toward that goal. The restrictive trade regime has crippled the economy and currency convertibility is essentially unheard of.

The US Central Intelligence Agency (CIA) estimates that in 1999 Uzbekistan's central government took in revenues of approximately \$4 billion and had expenditures of \$4.1 billion. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$5.1 billion.

### 36 TAXATION

Corporate rates range from 10–60%, with a standard rate of 18%. Also levied is a 25% value-added tax. In a law adopted in late 2001, the maximum rate on personal income taxes was reduced from 50% to 33%. The official minimum monthly wage rate in Uzbekistan is 3,430 soms, which is worth about \$2 in the black market. People who earn less than 15,720 soms (about \$9) a month pay 13%. On the increment between 15,720 soms and 31,140 soms (\$18) per month the rate is 23%, and on income above 31,140, the new maximum rate is 33%. At the same time the government introduced a 20-som tax on each liter of gas.

### 37 CUSTOMS AND DUTIES

Uzbekistan is a member of the Economic Cooperation Organization, together with Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Iran, Pakistan, and Turkey. Uzbekistan has also formed an economic union with Kazakhstan and Kyrgyzstan. Imports are subject to customs duties at rates ranging from 1% to 4%. However, excise taxes have been much higher, as much as 90% for imported liquor.

### 38 FOREIGN INVESTMENT

While Uzbekistan's store of valuable natural resources is likely to provide a strong basis for covering the costs of long-term economic development, significant amounts of external funding will be needed to support its short-term development plans over the next decade. To stimulate foreign direct investment, legislation adopted in mid-1991 provides tax incentives and guarantees against expropriation, though falling short of securing the right to repatriate profits and third-party dispute arbitration. By the end of 1992, 450 joint ventures were registered in the country but only 135 were actually operating. The largest of these is with the US-based Newmont Mining Corp. Negotiations over further Western participation in the exploitation of a major oil field discovered in the Fergana Valley in early 1992 are currently underway. Fourteen bilateral agreements with China were signed in 1992.

In 1994, British-American Tobacco, one of the world's largest cigarette manufacturers, announced a \$200 million deal to acquire 51% of state-owned Uztobacco. That same year, a Coca-Cola joint venture began operations in Uzbekistan. In August 1996, South Korea's Daewoo Group announced the planned investment of \$2.5 billion in Uzbekistan to build telecommunications networks. Daewoo has invested \$658 million to produce cars in Uzbekistan. In 2000 Uzbekistan and Israel announced plans to cooperate on the development of solar power technology.

In 1997, the International Monetary Fund, disappointed with Uzbekistan's rapid monetary growth, suspended the \$180 million loan program. Many small- and medium-size Western businesses have begun freezing their investments or pulling out. Investors have complained that once the required bribes are paid and an investment is guaranteed, officials begin delaying, lengthening, and altering procedures so much that making a profit is often impossible. Despite the fact that the Uzbekistan economy appeared to be among the strongest in the late 1990s, government intervention in business deals were discouraging

foreign companies from investing in the country. Prior to 1998, the government counted foreign credits as investments, greatly inflating investment statistics. The country's lack of currency convertibility, despite many promising opportunities, reduced foreign investment to a low level. The Uzbek government reports FDI of \$298 million in 1998 and \$188 million in 1999, the latest years for which statistics are available.

### 39 ECONOMIC DEVELOPMENT

Under centralized Soviet economic planning, Uzbekistan's economic growth was fueled by expanded agricultural production, as extensive stretches of land were brought under irrigation particularly for cultivation of cotton. While highly critical of the former Soviet's government emphasis on promoting cotton monoculture in the republic, the country's new government has found that the country's economic fortunes are closely tied to cotton production, which has fallen steadily since the Soviet era.

Since independence the government has aimed at facilitating a greater market orientation in the economy, though the steps taken toward this goal have been smaller and slower-paced than in other parts of the former USSR. A series of basic laws and new policies have been adopted regarding property ownership, land, privatization, foreign investment, price controls, trade, taxes, and banking. In 1995 the government announced a mass privatization program with the objective of increasing the private sector's share of GDP from 40% to 60%. Although nearly 60,000 small businesses (96% of the total) and 14,000 farms (accounting for 11% of arable land) had been privatized by 1997, only 20% of Uzbekistan's medium and large-sized enterprises were in private hands. The new policy would transform 3,000 state enterprises into corporate entities with 51% controlling interest sold to the public and 30% to private investment funds.

For the immediate future, developing the country's oil and natural gas fields, bolstering cotton exports through productivity enhancement, and sustaining gold exports are likely to be key strategies for procuring some of the necessary financing to support economic development. In 1992, Uzbekistan signed an agreement with Russia transferring its share of the former Soviet Union's debt to the latter in exchange for relinquishing all claims on Soviet assets. One area of serious concern for the government is the increasing threat to public health and economic productivity posed by the environmental damage resulting from past development strategies. Addressing growing water shortages, severe river and lake pollution caused the heavy use of chemical inputs in agriculture, the desiccation of the Aral Sea due to massive irrigation, and high levels of both air and water pollution in the country's industrial centers are among the country's most pressing environmental management problems.

In January 2002 the government and the Central Bank embarked on an IMF staff monitored program (SMP) primarily designed to convince the IMF to approve a financial program by the fourth quarter of 2002. The SMP was aimed at accelerating the transition to a market economy and achieving macroeconomic stability. The main policies pursued were reducing the role of the state through progressive lifting of restrictions on private activity, as well as accelerated privatization state enterprises, plus tight monetary and fiscal policies to bring down inflation and reduce debt. As of April 2003, the government had not convinced the IMF to reinstate Uzbekistan as eligible for financial assistance. A review was scheduled for May 2003.

### 40 SOCIAL DEVELOPMENT

The social security system includes old age, disability and survivor's pensions, in addition to sickness, maternity, work injury, and unemployment benefits. Pensions are provided at age 60 for men and age 55 for women. The program is financed by a

32.5% contribution from employers and a 1% contribution by employees. Women are entitled to 126 days of maternity benefits plus three years unpaid maternity leave. Unemployment benefits are paid for entirely by employers. Benefits are paid for a maximum of 26 weeks. First-time job seekers are entitled to 50% of minimum wage for 13 weeks, 75% if they have dependents.

Although nominally equal under the law, women hold few high-level positions. Traditional customs decree that women generally marry young, bear many children and confine their activities to the home. This is particularly evident in rural areas. There is a reported increase in the incidence of suicide by self-immolation by women. The number of women enrolling in higher education is on the decline. Violence against women and spousal abuse continues to be a common problem with little or no governmental intervention.

Human rights violations are prevalent. Security forces arbitrarily arrest and detain individuals, torture and beat prisoners, and confine them to unsafe prisons and labor camps. Freedom of speech and press are tightly restricted. Religious groups are closely monitored. The activities of human rights organizations are restricted, and human rights activists are frequently harassed.

#### 41 HEALTH

The system of health care in Uzbekistan is comprehensive and services are provided mainly free of charge. Yet the overall efficacy of the Uzbek system was still relatively low as of 2000. The public often used hospitals for primary care. In 1991, one quarter of the population was hospitalized annually; this figure declined to 12.9% by 1998. Health care reform objectives as of 2000 included improved quality of services overall and specifically in the areas of maternal and child health; promotion of privatization; and cost containment. Primary health care in rural areas is still provided by health posts staffed by physicians' assistants and midwives. In 2000, 85% of the population had access to safe drinking water and 100% had adequate sanitation. As of 1999, there were an estimated 3.1 physicians and 8.3 hospital beds per 1,000 people. As of 1999 total health care expenditure was estimated at 4.1% of GDP.

The infant mortality rate was 22 per 1,000 live births in 2000. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.1 and 8 per 1,000 people. The average life expectancy was 70 years in 2000. In 1994, 93% of children up to one year old were immunized against tuberculosis; 65% against diphtheria, pertussis, and tetanus; 79% against polio; and 71% against measles. As of 1999, the rates for DPT and measles were, respectively, 99% and 96%.

Leading causes of death per 100,000 people in 1990 were communicable diseases and maternal/perinatal causes, 137; noncommunicable diseases, 601; and injuries, 65. There were 97 reported cases of tuberculosis per 100,000 people in 1999. The heart disease rates were well above the countries classified as "medium human development" by the World Health Organization. The likelihood of dying after age 65 of heart disease was 508 for males and 538 for females per 1,000 adults in 1990-93. At least 65,898 deaths were cardiovascular disease-related in 1993.

#### 42 HOUSING

In 1989, 31.9% of all privately owned urban housing had running water, 11.3% had sewer lines, 21.1% had central heating, and 1.5% had hot water. In 1990, Uzbekistan had 12.1 sq m of housing space per capita and, as of 1 January 1991, 204,000 households (or 11.5%) were on waiting lists for urban housing. In 1996, it was estimated that about 90% of all households owned their own apartments or houses.

### 43 EDUCATION

The estimated adult illiteracy rate in 1995 was 0.3% (males, 0.2%; females, 0.4%). For centuries, Uzbekistan was a noted Muslim educational center. Muslim schools in the cities of Bukhara, Samarkand, Tashkent, and Khiva attracted students from other Muslim countries. In 1920, after the Soviet Union took control of the region, schools and mosques were closed down, and a secular state-funded educational system was established. The educational system is now being modified. In recent years, there has been an increased emphasis on Uzbek literature, culture, and history. Over 75% of the students are taught in the Uzbek language. In 1995, primary schools enrolled 1,905,693 students and employed 92,400 teachers. Student-to-teacher ratio stood at 21 to 1. In the same year, secondary schools had 3,318,900 students and 340,200 teachers.

There are three universities in Uzbekistan: Tashkent State University; Nukus State University; and Samarkand Alisher Navoi State University. There are several other institutions offering specialized training. In 1992, all higher-level institutions had 24,787 teaching staff and enrolled 638,200 students. As of 1995, public expenditure on education was 7.4% of GDP.

### 44 LIBRARIES AND MUSEUMS

The Alisher Navoi State Public Library of Uzbekistan in Tashkent holds 4.9 million volumes and is the largest library in the country. Also in the capital are Republic Library for Science and Technology (two million volumes), the library of the Uzbek Academy of Sciences (1.5 million), the Pedagogical Institute (808,000), Tashkent State University (2.46 million), and the Polytechnic Institute (808,000). Samarkand State University's library holds 1.6 million volumes, and the Pedagogical Institute Ulugbek in Fergana holds 295,000 volumes.

The State Art Museum, the Historical Museum, and the State Literary Museum are in Tashkent. The Museum of Culture and Art History is in Samarkand. There are local museums in Andizhan, Buchara, Karsi, Namangan, and other cities.

### 45 MEDIA

Telephone links to other former Soviet Republics are provided by land link or microwave and to other countries through Moscow. In 1999, there were 1.98 million main telephone lines. In 1998, there were 26,000 cellular phones in use. Radio Tashkent, established in 1947, broadcasts in Uzbek, English, Urdu, Hindi, Farsi, Arabic, and Uighur. There is also a television station in Tashkent, and satellite earth stations receive Orbita and INTELSAT. As of 1998, there were 20 AM and 7 FM radio broadcast stations and 4 television stations. In 2000, there were 456 radios and 276 television sets in use for every 1,000 people. The same year, there were 7,500 Internet subscribers served by 42 service providers.

Though there are privately-owned newspapers, the government owns all of the publishing house and must grant approval for all publications printed. The most widely read dailies include *Khalk Suzi* (2002 circulation 52,000), *Pravda Vostoka* (35,000), and *Sovet Uzbekistoni*. The weekly *Narodnoye Slovo* has a circulation of 21,000.

Though the constitution provides for freedom of expression, the government is said to restrict those rights severely, controlling all information flow. A 1991 law prohibits offending the president.

### 46 ORGANIZATIONS

The Uzbekistan Chamber of Commerce and Industry promotes the country's exports in world markets. An umbrella organization, the Federation of Trade Unions of Uzbekistan, coordinates the activities of the country's trade unions. The Academy of Sciences was established in 1943.

The Society for Human Rights is an important political association. Several social action groups formed in the 1990s, many, such as Real Action (1994), the ECO Initiative Group (1999) and Ecopolis Cultural and Ecological Movement (1995), are focused on environmental and developmental issues. The Red Crescent Society is also active.

National youth organizations include the Ulugbek Foundation for the Support of Talented Youth, the Youth of the Union of the Republic of Uzbekistan, and Soglom Ovlun Uchun, an organization focusing on health and development for children and youth. Women's organizations include the Center for Women Leaders (in Tashkent) and the Women's Committee of Uzbekistan.

#### 47 TOURISM, TRAVEL, AND RECREATION

Uzbekistan tourist attractions include the Islamic cities of Samarkand, Bukhara, Khiva, and Kokand. Muslims from Pakistan, Iran, and the Middle East have been drawn to these sites with their palaces, mosques, madrasses (religious colleges), and pre-Islamic remains.

In an effort to increase tourism in recent years, several hotels have been built in the Uzbekistan, and historical monuments were reconstructed. In 1998, foreign visitors totaled about 272,000.

According to 2002 US State Department estimates, the cost of staying in Tashkent was about \$283 per day.

#### 48 FAMOUS UZBEKISTANIS

Islam A. Karimov and Leonid Kuchma have been president and prime minister of Uzbekistan since October 1992, respectively. A famous 20th century writer is Abdullah Quaisi, who wrote the historical novels *Days Gone By* and the *Scorpion from the Pulpit*, published in the 1920s. Quaisi was killed in the 1930s during

Stalin's purges. Ilyas Malayev (b.1936) is a popular poet and musician.

#### 49 DEPENDENCIES

Uzbekistan has no territories or colonies.

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# VANUATU

Republic of Vanuatu  
[French] *République de Vanuatu*  
[Bislama] *Ripablik blong Vanuatu*

**CAPITAL:** Port-Vila

**FLAG:** Red and green sections are divided horizontally by a gold stripe running within a black border and widening at the hoist into a black triangle on which is a pig's tusk enclosing two crossed yellow mele leaves.

**ANTHEM:** *Yumi, Yumi, Yumi (We, We, We).*

**MONETARY UNIT:** As of 1 January 1981, the vatu (VT) replaced at par value the New Hebridean franc as the national currency. There are coins of 100 vatu and notes of 100, 500, 1,000, and 5,000 vatu. VT1 = \$0.0078 (or \$1 = VT126.97) as of May 2003.

**WEIGHTS AND MEASURES:** The metric standard is used.

**HOLIDAYS:** New Year's Day, 1 January; May Day, 1 May; Independence Day, 30 July; Assumption, 15 August; Constitution Day, 5 October; National Unity Day, 29 November; Christmas Day, 25 December; Family Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Ascension.

**TIME:** 11 PM = noon GMT.

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

Vanuatu, formerly the Anglo-French condominium of the New Hebrides, is an irregular Y-shaped chain of some 80 islands, with a total land area of about 12,200 sq km (4,710 sq mi) and a total coastline of 2,528 km (1,571 mi). Comparatively, the area occupied by Vanuatu is slightly larger than the state of Connecticut. Of the 70 inhabited islands, the largest is Espiritu Santo; the island of Efate is the administrative center. The island chain is about 800 km (500 mi) long and lies about 1,000 km (600 mi) W of Fiji and 400 km (250 mi) NE of New Caledonia. Vanuatu and France both claim Matthew and Hunter islands, which lie between Vanuatu and New Caledonia; one of the islands has been occupied by French forces.

Vanuatu's capital city, Port-Vila, is located on the island of Efate.

## <sup>2</sup>TOPOGRAPHY

The islands are of coral and volcanic origin; there are active volcanoes on several islands, including Ambrym, Lopevi, and Tanna. Most of the islands are forested and mountainous, with narrow coastal strips. The highest peak, Tabwemasana, on Espiritu Santo, rises 1,878 m (6,161 ft) above sea level. The islands are generally well watered.

## <sup>3</sup>CLIMATE

The tropical oceanic climate is moderated by southeastern trade winds, which blow between the months of May and October. Winds are variable during the remainder of the year, and cyclones may occur. Average midday temperatures in Port-Vila range from 25°C (77°F) in winter to 29°C (84°F) in summer. Humidity averages about 74%, and rainfall on Efate is about 230 cm (90 in) a year.

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

Despite its tropical forests, Vanuatu has a limited number of plant and animal species. There are no indigenous large mammals, poisonous snakes, or spiders. The 19 species of native reptiles

include the flowerpot snake, found only on Efate. There are 11 species of bat (3 unique to Vanuatu) and 61 species of land and water birds. While the small Polynesian rat is thought to be indigenous, the large species arrived with Europeans, as did domesticated hogs, dogs, and cattle. (The wild pig and fowl appear to be indigenous.)

The region is rich in sea life, with more than 4,000 species of marine mollusks. Coneshell and stonefish carry poison fatal to humans. The giant East African snail arrived only in the 1970s but already has spread from the Port-Vila region to Luganville.

## <sup>5</sup>ENVIRONMENT

Vanuatu's population growth has caused concern for the environment in several areas. Water pollution in urban areas is a problem due to inadequate sanitation systems. A majority of the country's population does not have access to a reliable supply of safe drinking water. The nation's logging industry threatens the forests and contributes to the problem of soil erosion. Forests currently cover 75% of the land area. The reefs on Vanuatu's coasts, which are the home of the country's marine life, are threatened by inappropriate fishing methods and siltation. In 1987, the government formed the National Advisory Committee on the Environment (NACE) to address the nation's developing environmental concerns. The estuarine crocodile, hawksbill turtle, Fiji banded iguana, and insular flying fox are threatened species.

## <sup>6</sup>POPULATION

The population of Vanuatu in 2003 was estimated by the United Nations at 212,000, which placed it as number 172 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 105 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.43%, with the projected population for the year 2015 at 275,000. The population density in 2002 was 17 per sq km (45 per sq mi). The population is unevenly distributed, with the vast

majority of Vanuatuans living in some 2,000 small villages. The most populous islands are Efate, Espiritu Santo, and Malekula.

It was estimated by the Population Reference Bureau that 20% of the population lived in urban areas in 2001. The capital city, Port-Vila, on Efate had a population of 26,000 in that year. Luganville on Espiritu Santo, the only other large town, had a population of 6,983. According to the United Nations, the urban population growth rate for 2000–2005 was 4.0%.

## 7 MIGRATION

Vanuatu's earliest known settlers probably migrated from the northwestern Pacific about 3,000 years ago. They were followed a thousand years later by migrants from the Solomon Islands. Tradition describes a series of subsequent incursions. In the 19th century, thousands of New Hebrides islanders were recruited as indentured laborers for plantation work in Australia, Fiji, New Caledonia, and Samoa. This migration gradually died down after the establishment of the Anglo-French Condominium, although voluntary emigration to New Caledonia continued until independence. In recent years, adverse economic conditions have encouraged emigration to Fiji, New Zealand, and the US. The net migration rate in 2000 was -0.9 migrants per 1,000 population. Worker remittances that year amounted to \$19 million, or 8.2% of GDP. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Approximately 98% of the total population are of Melanesian origin. French constitute about 4% of the population. The remaining 2% is made up of Vietnamese, Chinese, and other Pacific Islanders.

## 9 LANGUAGES

More than 100 languages and dialects are spoken in Vanuatu. Melanesian, the principal language, is related to Fijian and New Caledonian speech. Pidgin English, known as Bislama or Bichelama, is recognized by the constitution as the lingua franca, although English and French are also official languages. The national anthem is in Bislama, which is also used in parliamentary debate, with the proceedings reported in English and French as well. Children often speak as many as four languages and every aspect of public life—including education, law, and the media—is complicated by language problems.

## 10 RELIGIONS

A majority of the population is considered to be Christian; other Vanuatuans follow indigenous traditional religions. The Anglican, Presbyterian, and Roman Catholic churches began missionary work in the New Hebrides during the 19th century. More recently, the Seventh-Day Adventists and other nontraditional Protestant groups have been active in mission work. Most mission schools have been handed over to the government, but the missions have continued to make important contributions to education and health. Since 1940, the John Frum cargo cult (a rejection of the white Christian's beliefs but not his goods) has flourished, mainly on Tanna and provides a remarkable example of religious development in a situation of cultural challenge and transition. Membership, however, is only about 5% of the population.

In 1995 the government passed a Religious Registration Act in response to concerns expressed by some established churches about the activities of new missionary groups, such as the Holiness Fellowship, Jehovah's Witnesses, and the Church of the Latter-Day Saints. It was repealed in 1997.

At last estimates, 48% of the population were Presbyterian; 15% were Catholic; 12% were Anglican; 7.6% followed indigenous beliefs; 6.2% were Seventh-Day Adventist; 3.8% were

members of the Church of Christ; and 15.7% were designated as other. Muslims are also active within the country.

## 11 TRANSPORTATION

During World War II, Vanuatu became an important Allied base, and many roads and airstrips were built by the US forces. In 2002, there were 1,070 km (665 mi) of roads, of which 256 km (159 mi) were paved.

There were 31 small usable airfields serving all the main islands in 2001, of which 3 had paved runways. The chief airports are Bauerfield, on Efate, and Pekoa, on Espiritu Santo; both have been upgraded to handle jet aircraft. Air Vanuatu, the national airline operated by Ansett Airlines of Australia, maintains regular service to Australia; an internal airline, Air Melanesiae, links 22 airfields on various islands. Other external service is provided by Air Pacific, UTA, Polynesian Airlines, Solair, and Air Nauru. Port-Vila and Luganville are the chief seaports. In 2001, 97,500 passengers were carried on scheduled domestic and international flights. Small ships provide frequent interisland service. Vanuatu maintains a policy of open registry for merchant ships, allowing foreign shipowners to avoid the higher costs and regulations of registration under their own flags. As of 2002, there were 54 ships in the Vanuatuan merchant fleet, with a total capacity of 1,092,838 GRT.

## 12 HISTORY

Although the Portuguese navigator Pedro Fernandes de Queir established a short-lived settlement on Espiritu Santo in 1606, little more is known about the history of the New Hebrides until French and British explorers arrived in the late 18th century. Captain James Cook discovered, named, and charted most of the southern islands in 1774. The next century brought British and French missionaries, planters, and traders, and for many years the islanders suffered from the depredations of the recruiting ships and from other lawless acts by Europeans in the region.

By the Anglo-French Convention of 1887, a joint naval commission was established, with a resident commissioner to protect the lives and interests of the islanders. In 1906 following a London conference, the Anglo-French Condominium was established, largely to settle land claims and to end difficulties caused by lack of clear local jurisdiction. Indigenous political activity developed after World War II, with increasing native concern over land alienation and European dominance.

In 1975 a representative assembly replaced the nominated advisory council under which the New Hebrides had been governed; twenty-nine assembly members were elected by universal suffrage, nine members represented economic interests, and four members represented the traditional chiefs. In 1977 the National Party (Vanuaaku Pati), which held twenty-one of forty-two assembly seats, demanded independence and staged a boycott of the legislature; in response, at a conference in Paris, self-government was agreed on for 1978, to be followed by a 1980 referendum on independence. After considerable difficulty, a constitutional conference in 1979 finally agreed on an independence constitution. In the November 1979 elections for a newly constituted, fully elective assembly, the National Party, led by Father Walter Lini, obtained twenty-six of the thirty-nine seats.

In May 1980 however, a dissident francophone group, based on Espiritu Santo, attempted to break away and declared an independent government of Vemarana, under Jimmy Stevens and the Nagriamal Party. Attempts made during June to resolve the differences between the new central government and the rebels failed, and UK and French troops were sent to Luganville on 24 July. No shots were fired, but the soldiers remained until Vanuatu's formal declaration of independence on 30 July 1980. They were then replaced at the new government's request by

forces from Papua New Guinea, who were assisted by the local police in putting down the rebellion.

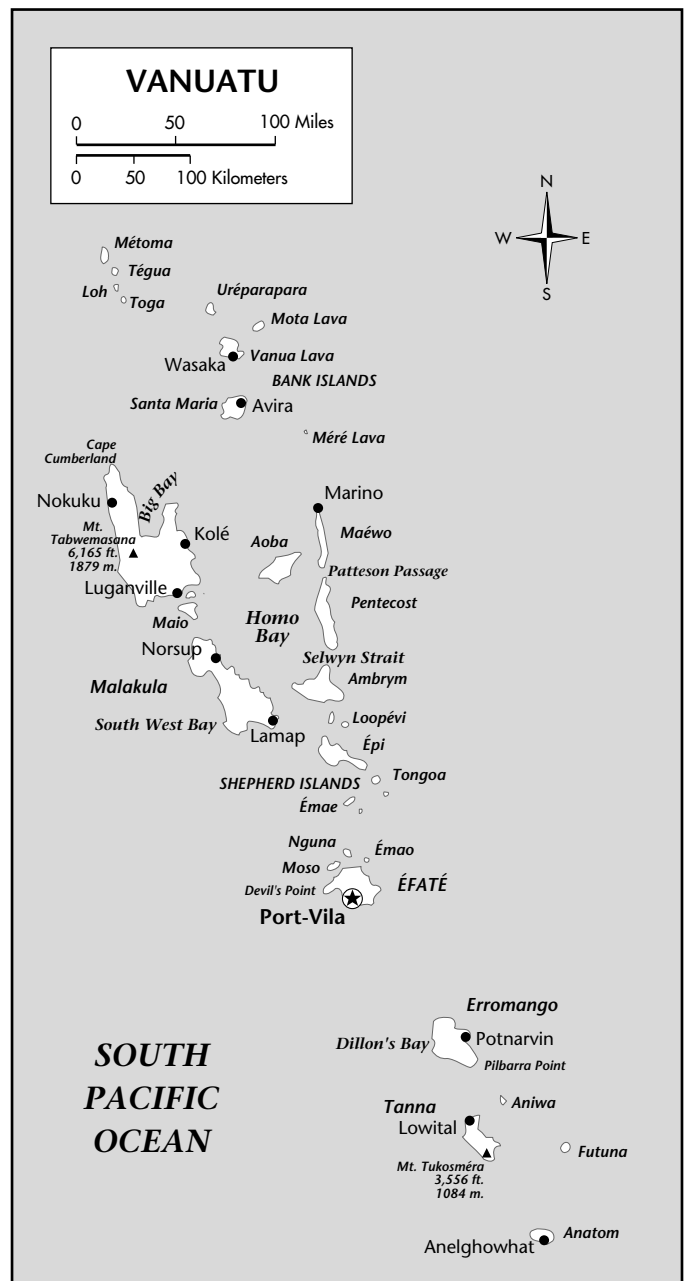
Since independence, Vanuatu (Our Land Forever) has followed a nonaligned foreign policy. As of late 1987, it was the only South Pacific nation to have joined the nonaligned movement, and in January 1987 it signed a controversial fishing agreement with the USSR. In May 1987 Vanuatu announced a ban on all military ships and aircraft in a dispute over a proposed Libyan diplomatic mission. The dispute ended with the expulsion of two Libyan diplomats. Relations with the French government remained strained throughout much of the Lini government's rule, though they improved at the end of 1989 with the signing of the Matignon Accord relating to New Caledonia.

In December 1988 President George Ati Sokomanu attempted to dismiss the Lini government by ordering the dissolution of the country's parliament. Sokomanu appointed Barak Sope as prime minister. Lini refused to surrender office and reconvened parliament. Sope and several supporters were arrested and charged with inciting mutiny. Sope was sentenced to six years' imprisonment.

Fr. Lini lost a parliamentary vote of confidence in September 1991 and he was replaced by Donald Kalpokas. In December 1991 the francophone Union of Moderate Parties (UMP), led by Maxime Carlot Korman, won the largest bloc of seats and formed a coalition government with the National United Party (NUP), led by Lini. Strains between the coalition members led to Lini joining the opposition in August 1993, but Carlot Korman's government survived the defection.

Parliamentary elections were again held in 1995, with the UMP winning slightly more seats than the Vanuatu Party (VP), led by Donald Kalpokas. Rialuth Serge Vohor was prime minister from November 1995 until a no-confidence vote in parliament forced his resignation on 7 February 1996. Maxime Carlot Korman was elected prime minister, forming a coalition, and parliament appointed Kalpokas deputy prime minister. The coalition was considered to be weak, however. On 30 September 1996 Korman was ousted by a no-confidence motion. Vohor was reelected as prime minister. The Vohor government repealed the Ombudsman's Act, but President Jean Marie Leye refused to declare this piece of legislation as law. Leye, in the face of dissent and political crises, took action to dissolve parliament. The ruling coalition refused to step down, questioning the constitutional right of Leye to do this. The Court of Appeal ruled in January 1998 that Leye's actions were legal, thus opening the way for a new general election. In the election held 6 March 1998 the VP of Kalpokas improved its earlier performance, but could not claim a majority. Kalpokas rejoined forces with Fr. Lini and the NUP and coalesced with minority party legislators to gain a clear majority. Kalpokas was elected prime minister. Willie Jimmy was named deputy prime minister on 19 October 1998. Kalpokas resigned to avoid a no-confidence vote in late 1999, and Barak Sope of Melanesian Progressive Party (MPP) became prime minister. In 1999, the government introduced a Comprehensive Reform Program, to combat corruption and abuse of power by government officials. It included a revamping of state administration, an increase in private sector development, a reduction in the public service sector, and the enactment of a leadership code of conduct.

At the South Pacific Forum in June 1999 Vanuatu supported a proposed Pacific Free Trade Area (FTA) that would initially include fourteen countries in the region. The South Pacific Forum set up the Pacific Kava Council to work at protecting the regional rights to kava and its uses. The kava plant's reputed relaxation properties had attracted the attention of producers of herbal medicines. The establishment of kava plantations in Central America threatened the Pacific Islands' production. Vanuatu joined with other small island developing states (SIDS) through the United Nations SIDSnet, an Internet project linking over forty



LOCATION: 13° to 21°S; 166° to 171° E. TOTAL COASTLINE: 2,528 kilometers (1,571 miles). TERRITORIAL SEA LIMIT: 12 miles.

island nations worldwide to address issues like the economic hurdles of isolation and small markets. The United Nations Environment Program (UNEP) issued a report assessing the ecological and population threats faced by SIDS, Vanuatu included. The UN's Intergovernmental Panel on Climate Change announced its predictions on the consequences of global warming. Vanuatu was mentioned as already affected by inundation of low-lying areas and coastal regions by rising oceans.

In April 2001, Barak Sope was ousted as prime minister in a vote of no confidence, and Edward Natapei became prime minister. The new government undertook investigations into Sope's business dealings, and in November, Sope was charged with two counts of forgery. He was sentenced to three years'



imprisonment but was subsequently pardoned by President Fr. John Bani. Natapei was reelected prime minister in May 2002, after parliamentary elections held on 30 April, in which his Vanua'aku Party took 15 seats and the Union of Moderate Parties took 14 seats.

### 13 GOVERNMENT

Under the independence constitution adopted in 1979 and effective in 1980, Vanuatu is an independent republic within the Commonwealth of Nations. The head of state is the president (Fr. John Bani since March 1999); the head of government is the prime minister (Edward Natapei since April 2001). The unicameral legislature consists of fifty-two members (thirty-nine before 1987, and fifty before 1998) elected by universal adult suffrage to four-year terms. The cabinet is responsible to parliament, and the president is chosen by an electoral college for a five-year term. The electoral system includes a degree of proportional representation. A Council of Chiefs chosen by their peers in the chiefs' district councils advises the government on the protection of Vanuatuan languages and culture.

### 14 POLITICAL PARTIES

The country saw six political parties be represented in parliament at the 30 April 2002 elections: the Union of Moderate Parties (UMP, Serge Vohor); the National United Party (NUP, led by Father Walter Lini until his death in February 1999; thereafter by Dinh Van Than); the Vanua'aku Party (VP, Edward Natapei); Melanesian Progressive Party (MPP, Barak Sope); the Vanuatu Republic Party (Maxime Carlot Korman), and the Green Party. Also represented in Vanuatu are the Jon Frum Movement (Song Keaspai); the Friend Melanesian Party (FMP, Albert Ravutia); and the Tan Union (TU, Vincent Boulekone).

### 15 LOCAL GOVERNMENT

Vanuatu is divided into six provinces (Malampa, Penama, Sanma, Shefa, Tafea, Torba). There are municipal councils in Port-Vila and Luganville, and community councils elsewhere. Espiritu Santo and Tanna have special regional councils.

### 16 JUDICIAL SYSTEM

Despite the great difficulty in unifying laws based on the very different English and French traditions, Vanuatu has sought to establish a single system based on British criminal procedure and the French penal code. The constitution establishes a Supreme Court, with a chief justice and three other judges, as well as an appeals court. Village and island courts have jurisdiction over customary and other matters.

The judiciary is independent of the executive and free from military influence. The constitution guarantees a range of procedural due process protections including the presumption of innocence, fair public trial, habeas corpus, and the prohibition against double jeopardy.

### 17 ARMED FORCES

The nation maintains close links with Papua New Guinea, where Vanuatuan cadets train for a mobile defense force under the auspices of the Australian Ministry of Defense, which also helps to train skilled manpower for national development tasks.

### 18 INTERNATIONAL COOPERATION

A member of the Commonwealth of Nations, Vanuatu joined the UN on 15 September 1981 and participates in ESCAP, FAO, IBRD, ICAO, IDA, IFC, IMF, UNCTAD, UNESCO, UPU, and WHO. It also belongs to the Asian Development Bank (which opened a regional office in Port-Vila in 1984), the French Community, G-77, and various regional Pacific bodies, and has applied for membership in the WTO. Vanuatu has taken an active role in Pacific affairs, campaigning for a nuclear-free zone and

advocating independence for New Caledonia. Vanuatu has established diplomatic relations with a number of OECD countries, as well as China, Cuba, Vietnam, and Libya.

### 19 ECONOMY

Vanuatu has a mixed traditional and modern economy. Agriculture supports about 65% of the population, but the service industry is playing an increasingly important role in the economy. Tourism has been developed since the 1980s and, together with financial services, has become an important foreign exchange earner. GDP grew by less than 3% a year in the 1990s. For the three years 2000 to 2002, GDP growth averaged 3% and inflation averaged 3%. During this period the islands had to deal with the extensive damage from two severe earthquakes, each followed by sizeable tsunamis: in November, 1999 on the northern island of Pentecote, and in January 2002, centered on the capital and surrounding areas. The absence of personal and corporate income taxes have made Vanuatu an offshore financial center, and the government also earns fees from a "flag of convenience" shipping registry.

### 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2000 Vanuatu's gross domestic product (GDP) was estimated at \$257 million. The per capita GDP was estimated at \$1,300. The annual growth rate of GDP was estimated at 2.7%. The average inflation rate in 2000 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. It was estimated that agriculture accounted for 26% of GDP, industry 12%, and services 62%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$10.9 million or about \$95 per capita and accounted for approximately 8.2% of GDP. Worker remittances in 2001 totaled \$15.8 million. Foreign aid receipts amounted to about \$157 per capita and accounted for approximately 15% 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

About 80% of the population is engaged in peasant labor either for subsistence or producing cash crops such as copra. As of 2002, there were approximately 25,000 persons participating in the formal economy as wage earners. The wage-labor force is concentrated in Port-Vila and Luganville.

For persons engaged in government enterprises, port work, construction, and certain other jobs, the terms of employment and wages are set by legislation. The nation's first trade unions were formed in 1984. In 2002 there were seven trade unions; the largest two were the Oil and Gas Workers' Union and the Vanuatu Airline Workers' Union. Union membership has fallen from 4,000 in 1994 to less than 1,000 in 2002.

The law prohibits children under 12 from working. Children between 12 and 18 may work under restricted hours and conditions. The Labor Department effectively enforces these laws. In 2002, the minimum wage was \$143 per month for all workers. This does not provide an adequate living and most families subsidize this amount with subsistence farming. The law mandates a 44-hour maximum workweek. The Employment Act provides health and safety standards but these are not effectively enforced.

## 22 AGRICULTURE

About 10% of the land is cultivated. While most crops, including yams, taro, manioc, sweet potato, and breadfruit, are raised for local consumption, cash crops like copra, cocoa, and coffee have been increasingly important. Production of copra totaled 43,000 tons in 1999. Copra production was adversely affected by cyclones in 1985 and 1987.

In 1983, Vanuatu's first agricultural census was taken, with British assistance. A land alienation act passed in 1982 limits land ownership to indigenous owners and their descendants, but expatriates can lease land for up to 75 years.

## 23 ANIMAL HUSBANDRY

Hogs and fowl form part of the village economy. Vanuatu is ideal for cattle, and large numbers are raised on plantations; in 2001 there were an estimated 151,000 head of cattle, up from around 124,000 in 1990. The growing meat-packing industry produces frozen, chilled, and tinned beef; production of beef totaled about 4,000 tons (dressed carcass weight) in 2001. The beef industry is centered on the island of Espiritu Santo, where the country's main abattoir is located. Beef is exported primarily to Japan, with a lesser amount going to New Caledonia.

## 24 FISHING

Although the South Pacific Fishing Co., a joint Vanuatuan government and Japanese venture, has facilities at Luganville that freeze and export both tuna and bonito to Japan and the United States, the full fishery potential has not been realized. Fishing is currently focused on domestic consumption; exporting fish requires a government permit. Vanuatu's catch was 73,490 tons in 2000; exports totaled \$270,000 that year.

## 25 FORESTRY

About 37% of the total land area is forest or bushland. Total roundwood production in 2000 was 131,000 cu m (388,300 cu ft), with 69% burned as fuel. Sawnwood production totaled 18,000 cu m (635,400 cu ft) that year, and exports of forest products were valued at \$2.7 million. The government approved the establishment of a large commercial forestry plantation on Espiritu Santo in 1987.

## 26 MINING

Vanuatu had few known minerals, although gold deposits have recently been discovered. A small manganese mine on Efate ceased exports in 1980.

## 27 ENERGY AND POWER

Temporary generators established throughout the islands by the United States during World War II (1939–45) have mostly deteriorated. Total installed capacity was about 11,000 kW in 2001, all of it conventional thermal. Electricity production in 2000 totaled 39 million kWh, all of it from fossil fuels. Consumption of electricity in 2000 was 36.3 million kWh.

## 28 INDUSTRY

The industrial sector is small: in 1990 it contributed about 12.3% to GDP; in 1996, 13% and in 2001, 11.5%. The leading industries are fish and food freezing, wood processing, and meat canning. The small manufacturing sector, accounting for 5.5% of GDP in 1990 and 5% in 2001, is geared to toward domestic consumption. Indigenous crafts include basketry, canoe building, and pottery. In 1990, National Breweries, a joint venture with Sweden, began producing Tusker beer and Pripps Lager.

## 29 SCIENCE AND TECHNOLOGY

There is no advanced technology apart from overseas aid programs.

## 30 DOMESTIC TRADE

A large part of the population still relies on barter. In Port-Vila, European businesses dominate commercial life; there are hotels, supermarkets, fashion shops, and patisseries, as well as recently established Australian steak houses and small Chinese restaurants. Some Vanuatians have entered the cash economy in urban areas. There is a very small light industry section that supplies the local markets. The nation's numerous cooperative societies handle most of the distribution of goods on the islands. A value-added tax applies to most goods and services.

Normal business hours in the capital are 7:30 to 11:30 AM and 1:30 to 4:30 PM, Monday–Friday. Banks in Vanuatu are open on weekdays from 8 to 11:30 AM and 1:30 to 3 PM.

## 31 FOREIGN TRADE

In 2000, exports totaled \$23.2 million and imports amounted to \$86.7 million. Service receipts have helped offset the traditionally adverse trade balances. A commodities marketing board exports copra and cocoa, and cooperatives play a major role in foreign trade.

Most of Vanuatu's export commodities are foodstuffs, including oil seeds, (34%), vegetables (15%), wood (13%), meat (12%), cocoa (4.7%), and fish (1.3%).

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

Consumer goods	16.4%
Food	20.2%
Fuels	14.1%
Industrial supplies	18.2%
Machinery	15.7%
Transportation	13.1%
Other	2.3%

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

COUNTRY	EXPORTS	IMPORTS	BALANCE
Bangladesh	5.0	n.a.	n.a.
Japan	2.8	4.4	-1.6
United Kingdom	2.4	0.1	2.3
China (inc. Hong Kong)	1.6	2.8	-1.2
Australia	1.4	28.5	-27.1
Fiji	1.3	7.9	-6.6
New Zealand	0.7	10.0	-9.3
New Caledonia	0.5	5.0	-4.5
France	0.4	3.0	-2.6
Singapore	0.4	2.3	-1.9

## 32 BALANCE OF PAYMENTS

Continuing trade deficits have been offset by aid from the United Kingdom and France, but this assistance is being steadily reduced.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Vanuatu's exports was \$22.8 million while imports totaled \$87.5 million resulting in a trade deficit of \$64.7 million.

The International Monetary Fund (IMF) reports that in 2001 Vanuatu had exports of goods totaling \$20 million and imports totaling \$78 million. The services credit totaled \$119 million and debit \$73 million. The following table summarizes Vanuatu's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-15
Balance on goods	-58
Balance on services	46
Balance on income	-4
Current transfers	1
<b>Capital Account</b>	-16
<b>Financial Account</b>	-13
Direct investment abroad	...
Direct investment in Vanuatu	18
Portfolio investment assets	-4
Portfolio investment liabilities	...
Other investment assets	-11
Other investment liabilities	10
<b>Net Errors and Omissions</b>	8
<b>Reserves and Related Items</b>	10

### 33 BANKING AND SECURITIES

Vanuatu's banking system includes a Central Bank, local retail banks, and a Development Bank that provides loans for agricultural projects, housing, and industrial development. The country's Financial Centre, a tax haven created by the British in 1971, is the third-largest source of government revenue. Favorable regulatory and tax structures have stimulated foreign interest in Vanuatu as an international financial center; more than 600 offshore companies and banks were registered in Port-Vila in 1985. Local banks require no minimum deposits for vatu accounts and a minimum of US\$5,000, or the equivalent in major specified currencies, for foreign currency holdings. Vanuatu has no double taxation agreements with other countries, ensuring maximum confidentiality for international financial transactions. In late 1999, a number of foreign bank-including Deutsche Bank, Banker's Trust, and the Bank of New York-banned trading in US with Vanuatu because of suspected illegal activity being carried on through the Vanuatu financial center. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$55.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$245.6 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.5%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

There is no stock exchange.

### 34 INSURANCE

Insurance coverage is available through agents of overseas companies, mainly British and French.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 2000 Vanuatu's central government took in revenues of approximately \$94.4 million and had expenditures of \$99.8 million including capital expenditures of \$30.4 million. Overall, the government registered a deficit of approximately \$5.4 million. External debt totaled \$64.6 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.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>94</b>
Tax revenue	81.9%	77
Non-tax revenue	10.6%	10
Grants	7.4%	7

### 36 TAXATION

Vanuatu has no income, corporation, or sales tax. Government revenues are derived from indirect taxes, which include stamp taxes, an excise tax on locally produced alcoholic beverages, a 10% hotel tax, and a rent tax. In 2000 the OECD listed Vanuatu as one of 38 uncooperative tax haven. In 2002, it was one of seven that remained on the list. In May 2003, however, Vanuatu was removed from the blacklist, having promised an OECD representative to make the required reforms.

### 37 CUSTOMS AND DUTIES

Vanuatu imposes tariffs on both an ad valorem and specific basis. Tariff rates average 15–20%; however, rates for luxury goods could reach 200%. Printed matter is exempt. A 5% service tax is also charged on all imported goods. Export duties are levied on the country's primary products.

### 38 FOREIGN INVESTMENT

The government encourages all forms of foreign investment, especially if there is joint local participation. There are no major foreign ownership restrictions, and duty exemptions are available on application to the Ministry of Finance. In late 1999 Vanuatu's Department of Trade announced that, to be considered, all foreign investment proposals must be accompanied by US\$38,000. This action was taken because of the high number of project proposals approved that have not been implemented. According to statistics published by UNCTAD, foreign direct investment (FDI) in Vanuatu was US\$30.2 million in 1997, but dropped to US\$20.4 million in 1998, and averaged US\$20.275 for the three years following (1999 to 2001).

### 39 ECONOMIC DEVELOPMENT

The British independence settlement provided grants of £23.4 million to Vanuatu, including £6.4 million in budgetary aid (with additional grants provided annually), £4 million for technical aid, and £13 million for development projects aimed at promoting national economic self-sufficiency. Projects under the five-year development plan for 1982–86 included harbor development, agricultural training, and road improvements. Aid for other infrastructural development is provided by Australia, New Zealand, the UN, and the EU. Government development projects emphasize local participation and preservation of Vanuatu's cultural heritage. In 1995, Vanuatu received US\$45.8 million in aid from international sources. In 2000, Vanuatu was listed on the OECD's list of "uncooperative" tax havens. In 2002, it was one of only seven jurisdictions still on the list of not having taken corrective action. In May 2003, however, Vanuatu was the first of the seven to be removed from the blacklist having agreed, after discussions with OECD representatives, to institute the necessary reforms. Vanuatu remains one of the top ten "flags of convenience" registries.

### 40 SOCIAL DEVELOPMENT

The majority of the people cling to traditional village life. The extended family system ensures that no islanders starve, while church missions and the social development section of the Education Ministry concentrate on rural development and youth activities. The government incorporates family planning into its overall maternal and child health program. A provident fund system provides lump-sum benefits for old age, disability, and death. Workers contributed 3% of earnings and employers contribute 3% of payroll. Pensions are provided at the age of 55.

Women are still largely confined to traditional cultural roles, and most marriages include a "bride-price" that encourages men to consider their wives as possessions. Women generally do not own land. Village chiefs usually act to reinforce the subordinate roles of women and are thus viewed as a primary obstacle to

female advancement. There are no female leaders in Vanuatu's civic, business, or religious institutions. A disproportionate number of women lost their jobs due to cutbacks in government employment. Violence against women, especially domestic abuse, is common.

Human rights are generally well respected in Vanuatu.

#### 41 HEALTH

Malaria is the most serious of the country's diseases, which also include leprosy, tuberculosis, filariasis, and venereal diseases. Malaria was reported in 10,377 cases in 1993, a decrease from 28,558 in 1990. In 1990, there were an estimated 200 cases of tuberculosis per 100,000 people reported. Safe water was available to 72% of Vanuatu's population during 1989-90.

Medical care is provided by 94 hospitals, health centers, and clinics administered by the Ministry of Health, assisted by the World Health Organization and a number of voluntary agencies. Local training schemes in basic community nursing are provided by Port-Vila hospitals and local clinics train health and sanitation orderlies. The country had 15 physicians in 1991. In 1997 there were 0.1 physicians and 2.6 nurses per 1,000 people.

There were 500 deaths of children under five years old in 1990-95. Only 12% of married women were using contraception in 1989-90. In 2002, the infant mortality rate was estimated at 59.6 per 1,000 live births. In the same year the estimated birth rate (24.8 per 1,000 people) far exceeded the general mortality rate (8.3 per 1,000 people). The fertility rate in that year was 3.1 children per woman. Average life expectancy was an estimated 61.3 years. The immunization rates for children under one were as follows in 1994: diphtheria, pertussis, and tetanus, 74%; polio, 74%; measles, 53%; and tuberculosis, 86%.

#### 42 HOUSING

In urban areas only the emerging middle class can afford government-built housing. Other migrants to the towns buy plots of land and build cheap shacks of corrugated iron and waste materials, principally near Port-Vila and Luganville. The vast majority of villagers still build their own homes from local materials. The majority of dwellings are traditional Melanesian houses with earth or coral floors, no glass windows, and palm, bamboo, or cane walls and roofing. The most widely used exterior construction material was bush. In February 1987, a cyclone damaged 95% of the buildings in Port-Vila. In 1998, 87% of the population had access to safe drinking water.

#### 43 EDUCATION

The overall literacy rate is low (64% of the population), but literacy is relatively widespread among persons under 35 years of age. Primary education is available for almost all children except in a few remote tribal areas. Education is provided in either English or French. In 1992, there were 272 primary schools with 852 teachers and 26,267 students. Student-to-teacher ratio stood at 31 to 1. General secondary schools had 220 teachers and 4,269 students in the same year. There were also 124 students in teacher training schools and 444 in vocational schools. The pupil-teacher ratio at the primary level was 24 to 1 in 1999. In the same year, 96% of primary-school-age children were enrolled in school, while 23% of those eligible attended secondary school.

Full secondary education is provided by the anglophone Malapoa College and the French Lycée at Port-Vila; limited secondary education is also available in five English post-primary schools and three French mission schools. For post-secondary education, especially medical and technical training, selected students go principally to Fiji, Australia, and New Zealand.

Government expenditure on education in 1995 amounted to 20% of the central government budget. As of 1999, public expenditure on education was estimated at 8.7% of GDP.

#### 44 LIBRARIES AND MUSEUMS

There is practically no secular reading matter in the country's many vernaculars. A cultural center at Port-Vila has a well-stocked library of both French and English books and periodicals and houses fine collections of Melanesian art and artifacts, as well as a valuable stamp collection. The secondary schools also have libraries, and there is a small library in the parliament building. Efate has a small museum displaying South Pacific artifacts and current works of art. The Vanuatu Cultural Center and National Museum and a private fine arts museum are located in Port-Vila.

#### 45 MEDIA

The weekly government newspaper, *The Vanuatu Weekly*, appears in English, French, and Bislama. In 2002, it had a circulation of 1,700. Vanuatu is linked by telegraph and telex to Hong Kong; Paris; Noumea, New Caledonia; and Sydney, Australia. An earth satellite tracking station came into service in 1979. There were 5,500 mainline telephones in 1998 and 310 additional cellular phones in 2000. Radio Vanuatu (founded 1966) broadcasts daily in English, French, and Bislama. As of 2002, there were four radio stations and one television station. In 1997 there were 254 radios and 10 television sets per 1,000 population. In 2000, there were 3,000 Internet subscribers served by one service provider.

The constitution provides for free speech and a free press; however, in practice these provisions are not always honored, threatening opposition groups and media representatives with revocations of licenses and permits.

#### 46 ORGANIZATIONS

There are a great number of European organizations, but the cooperative movement has had the greatest local impact. Cooperative units have organized a training center in Port-Vila for such skills as accounting, management, law, and marketing. Cooperatives receive British aid and government support but remain firmly independent. There is an active Vanuatu Credit Union League offering educational opportunities as well as financial services to members. National youth organizations include the Vanuatu National Youth Council and the Vanuatu National Union of Students. The Vanuatu Association of Women Graduates promotes higher education opportunities for women.

#### 47 TOURISM, TRAVEL, AND RECREATION

The most popular recreations in Vanuatu include marine sightseeing, deep-sea fishing, sailing, and beachcombing for shells. The number of tourist arrivals reached 57,591 in 2000, with over 36,000 from Australia alone. Tourist receipts totaled \$58 million the same year. There were 1,060 rooms in hotels and other establishments. According to 1999 UN estimates, the cost of staying in Port-Vila was approximately \$172 per day. The daily cost of staying in Santos was \$95 and Tanna Island was \$69.

#### 48 FAMOUS VANUATUANS

Father Walter Hayde Lini (1943-99), ordained as an Anglican priest in 1970, served as prime minister in Vanuatu from 1980 to 1991.

#### 49 DEPENDENCIES

Vanuatu has no territories or colonies.

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# VIETNAM

Socialist Republic of Vietnam  
*Cong Hoa Chu Nghia Viet Nam*

**CAPITAL:** Hanoi

**FLAG:** The flag is red with a five-pointed gold star in the center.

**ANTHEM:** *Tien Quan Ca (Forward, Soldiers!).*

**MONETARY UNIT:** The dong (D) is a paper currency of 10 hao and 100 xu. There are coins of 1, 2, and 5 xu, and notes of 5 xu, 1, 2, and 5 hao, and 1, 2, 5, and 10 dong. D1 = \$0.00007 (or \$1 653= D 15,303) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional measures are still used.

**HOLIDAYS:** Liberation of Saigon, 30 April; May Day, 1 May; Independence Day, 2 September. Movable holidays include the Vietnamese New Year (Tet).

**TIME:** 7 PM = noon GMT.

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

Situated on the eastern coast of mainland Southeast Asia, the Socialist Republic of Vietnam (SRV) has an area of 329,560 sq km (127,244 sq mi), extending 1,650 km (1,025 mi) N–S and 600 km (373 mi) E–W. Comparatively, the area occupied by Vietnam is slightly larger than the state of New Mexico. At its narrowest, Vietnam is only 50 km (31 mi) across. The nation is bordered on the N by China, on the E by the Gulf of Tonkin, on the E and S by the South China Sea, on the SW by the Gulf of Thailand, and on the W by Cambodia and Laos, with a total land boundary of 4,639 km (2,883 mi) and a coastline of 3,444 km (2,140 mi). Before unification, which was proclaimed on 3 July 1976, Vietnam was divided in two by the 17th parallel. To the south was the Republic of Vietnam (RVN), also known as South Vietnam; to the north, the Democratic Republic of Vietnam (DRV), also known as North Vietnam.

Vietnam, China, the Philippines, Brunei, Taiwan, and Malaysia claim all or part of the Spratly Islands and Paracel Islands, located in the South China Sea roughly 600 km (350 mi) east of Ho Chi Minh City and 400 km (250 mi) east of Da Nang, respectively. The Paracel Islands are known in Vietnamese as the Hoang Sa archipelago, and the Spratlys as the Truong Sa. Both archipelagoes are reportedly surrounded by rich undersea oil reserves, and are productive fishing grounds. China has occupied the Paracel Islands since 1974, when Chinese troops drove a South Vietnamese garrison from the western islands. Vietnam occupies six of the Spratlys, and has unsuccessfully engaged in negotiations with Malaysia and the Philippines over the remainder. Periodic clashes between Chinese and Vietnamese naval forces have taken place in the vicinity of both island groups.

Vietnam's capital city, Hanoi, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

Vietnam has been described as a carrying pole with a rice basket hanging from each end. The description is a fitting one, for a single mountain chain, the Annam Cordillera (in Vietnamese,

Truong Son), extends along Vietnam's western border from north to south, connecting two "rice baskets," which are formed by the densely populated Red River Delta of the Tonkin region in the north and the rich Mekong River Delta in the south. Over two-thirds of the entire population of the country lives in the two low-lying delta regions, both of which are composed of rich alluvial soils brought down from the mountainous regions of southern China and mainland Southeast Asia. The remainder of the population lives along the narrow central coast, in the hilly regions of the Central Highlands north of Ho Chi Minh City (formerly Saigon), or in the mountains north and west of the Red River Delta. The highest mountain peak is Fan Si Pan (3,143 m/10,312 ft), near the northern border.

## <sup>3</sup>CLIMATE

Vietnam is entirely located in the tropical belt lying between the equator and the Tropic of Cancer. While there are slight variations in temperature, depending on the season and the altitude, the primary seasonal changes are marked by variations in rainfall.

In the north, the rainy season extends from mid-April to mid-October; the city of Hanoi has a mean annual rainfall of 172 cm (68 in), and in the mountains, annual rainfall sometimes exceeds 406 cm (160 in). Daily temperatures fluctuate considerably in the Red River Delta region, particularly in the dry season, when the thermometer may drop as low as 5°C (41°F) in the region of Hanoi. During the rainy season, the average temperature in Hanoi is about 30°C (86°F).

The south is more tropical; temperatures in Ho Chi Minh City vary only between 18° and 33°C (64–91°F) throughout the year. Temperatures in the Central Highlands are somewhat cooler, ranging from a mean of about 17°C (63°F) in winter to 20°C (68°F) in summer. The rainy season extends from early May to November, with annual rainfall averaging about 200 cm (79 in) in lowland regions. The typhoon season lasts from July through November, with the most severe storms occurring along the central coast. Typhoons in this region frequently lead to serious crop damage and loss of life.

#### **4 FLORA AND FAUNA**

The mountainous regions of Tonkin, as well as the Annam Cordillera, are characterized by tropical rain forest broken by large areas of monsoon forest. In the higher altitudes of the far northwest there are pine forests. Shifting cultivation has resulted in many sections of secondary forest. Tropical grasses are widespread, and there are mangrove forests fringing parts of the Red River Delta and in the Ca Mau peninsula, which juts into the Gulf of Thailand. Tropical evergreen forests predominate in the south, with extensive savanna in the southwest.

Deer and wild oxen are found in the more mountainous areas. There are many species of tropical birds and insects.

#### **5 ENVIRONMENT**

During the Vietnam war, massive bombing raids and defoliation campaigns caused severe destruction of the natural foliage, especially in the Central Highlands in the south. In addition, dioxin, a toxic residue of the herbicide known as Agent Orange, had leached into water supplies. Over 50% of the nation's forests have been eliminated. UN sources estimate that Vietnam loses 160,000 to 200,000 hectares of forest land annually. The nation has 366 cu km of renewable water resources with 86% used for farming activity and 10% used for industrial purposes. As of 2000, only 72% of the rural population had access to safe drinking water. Salinization and alkalinization are a threat to the quality of the soil, as are excessive use of pesticides and fertilizers.

Environmental damage has also been caused by the slash-and-burn agriculture practiced by nomadic tribal peoples in the Central Highlands and in the mountainous regions in the north. The government is engaged in a program to introduce modern farming practices to these populations.

In 2001, 38 of Vietnam's mammal species and 47 bird species were endangered. About 297 types of plants are also endangered. Endangered species include the tiger, elephant, Sumatran rhinoceros, Thailand brow-antlered deer, kouprey, river terrapin, Siamese crocodile (probably extinct), estuarine crocodile, Javan rhinoceros, and the pileated, crowned, and caped gibbons. The Vietnam warty pig has become extinct.

#### **6 POPULATION**

The population of Vietnam in 2003 was estimated by the United Nations at 81,377,000, which placed it as number 13 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 31% 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 1.35%, with the projected population for the year 2015 at 94,742,000. The low growth rate is due to extensive family planning programs aimed to curb overpopulation. The population density in 2002 was 240 per sq km (622 per sq mi).

It was estimated by the Population Reference Bureau that 20% of the population lived in urban areas in 2001. The capital city, Hanoi, had a population of 1,074,000 in that year. Ho Chi Minh City is the largest urban area with a population of 3,678,000. According to the United Nations, the urban population growth rate for 2000–2005 was 2.2%.

#### **7 MIGRATION**

The 1954 partition of Vietnam resulted in the exodus of over 820,000 refugees, the majority of them Catholics, from the northern part of the country. Most eventually settled with government assistance in the Central Highlands or on the outskirts of the capital city of Saigon (now Ho Chi Minh City). During the same period, about 80,000 Viet-Minh troops and their dependents moved from the south to the north.

The Vietnam war caused severe disruption of living patterns in both the north and the south. In the north, intensive US bombing of major industrial cities led to a dispersal of the population from urban areas, while a government-sponsored program resulted in the resettlement of nearly 1 million Vietnamese from crowded areas in the Delta to less densely populated regions in upland areas of the country. In the south, migration was primarily from the countryside to the cities, as millions of peasants fled their villages to escape the effects of the war or to seek employment in the affluent cities of Saigon and Da Nang. At the end of the war in 1975, nearly one-half of the population lived in urban areas, many in refugee camps on the edges of the major cities.

After seizing control of the south in 1975, the Hanoi regime announced a new program that called for the resettlement of over 10 million Vietnamese into uncrowded areas of the country by the end of the century. Many were to be moved from refugee camps in the south to new economic zones established in the Central Highlands or along the Cambodian border. Although the zones were unpopular because of poor living conditions, between the end of the war and 1981, nearly 1.5 million Vietnamese were resettled into new areas. The overall aim was to disperse the entire population into several hundred "agro-industrial districts" that would provide the basis for development of an advanced Socialist economy. Since 1981 another 2.1 million have been resettled.

In addition to this migration within the country, since the war there has been a substantial outflow of Vietnamese fleeing to other countries. About 150,000 were evacuated from the south in the final weeks of the war, many of them eventually settling in the United States. There were 593,213 people of Vietnamese ancestry in the US in 1990. In 1978, a new exodus began after the government nationalized all private trade and manufacturing in the country. During 1978–87, an estimated 1 million Vietnamese fled by sea to other countries in Southeast Asia, or overland to China. Many later resettled in Australia, France, the United States, and other countries. From 1979 to 1984, 59,730 persons emigrated legally through the US Orderly Departure Program; this program was suspended by the Vietnamese government in 1986 but later resumed, with 57,000 emigrating to the United States in 1993 alone. In 1984, the US started a program that offered asylum to Vietnamese political prisoners and all Asian-American children. This program was restarted in September 1987. Between 1975 and 1984, about 554,000 persons, known as the "boat people," emigrated illegally. In 1992, Vietnam signed agreements with the United Kingdom providing for the forcible repatriation of almost all the 55,700 "boat people" remaining in Hong Kong. The major refugee community was in China, which was harboring 285,500 Vietnamese of Chinese ancestry at the end of 1992.

As of 1997, 3,000 Vietnamese remained in Hong Kong. By 1999, some 110,000 non-refugee boat people had returned to Vietnam. In 2000, the net migration rate was -0.5 migrants per 1,000 population. The government views the emigration level as too low, but the immigration level as satisfactory.

#### **8 ETHNIC GROUPS**

About 85–90% of the population of the SRV is composed of ethnic Vietnamese. The racial origins of the Vietnamese are obscure, although many scholars believe they represent a mixture of Australoid peoples who lived in mainland Southeast Asia during the Stone Age with Mongoloid peoples who migrated into the area from southern China.

In addition to the ethnic Vietnamese, there are 53 other ethnic groups living in the SRV. Many, like the Tay, the Thai, the Nung, the Rhadé, and the Jarai, are nomadic tribal peoples living in the mountainous areas of the Central Highlands and along the Sino-Vietnamese border. The overseas Chinese (Hoa) are descendants of peoples who migrated into the area in recent centuries. The

Cham and the Khmer are remnants of past civilizations that controlled the southern parts of the country.

Until recently, the largest ethnic minority in the country was the overseas Chinese, numbering more than 2 million. Many have fled the country for economic or political reasons in recent years, however; Chinese constituted 3% of the population in 1999. Other sizable minority groups are the Muong, the Tay, Meo, Khmer, Man, and Cham.

## 9 LANGUAGES

The official language of the SRV is Vietnamese (Quoc ngu). A tonal language, it bears similarities to Khmer, Thai, and Chinese, and at least one-third of the vocabulary is derived from Chinese. Formerly, Vietnamese was written in Chinese characters, but under French rule a Romanized alphabet originally developed by Roman Catholic missionaries in the 17th century was adopted as the standard written form of the language. Most of the minority groups have their own spoken languages, and some have their own writing systems, but all children in the SRV today receive instruction in the national language. Other languages include Chinese, English, French, Khmer, and the tribal languages of Mon-Khmer and Malayo-Polynesian.

## 10 RELIGIONS

In 2002, the dominant religious belief was Buddhism. Many believers practice a mixture of Mahayana Buddhism, Taoism, and Confucianism, sometimes called Vietnam's "Triple Religion." It was under Chinese rule that these three major religions and philosophical systems entered the country. Three-fourths of the population are at least nominally Buddhist. Like many Asian peoples, the Vietnamese also practiced spirit worship, a form of religious belief that was particularly prevalent among the tribal peoples.

Christianity was first brought to Vietnam in the 17th century by Roman Catholic missionaries sponsored by the French, the Spanish, the Portuguese, or the papacy. Eventually, however, propagation of the Christian faith was forbidden by the imperial court, and Catholicism could only be practiced in secret. French priests were especially active in provoking the French decision to conquer Vietnam in the 19th century.

Under French rule, Christianity prospered, and when Vietnam restored its independence in 1954, there were more than 2 million Catholics in the country, a population that increased to between 6 and 7 million in 1998.

Two millenarian religious sects, the Cao Dai and the Hoa Hao, also became popular among peasants and townspeople in the Mekong Delta. In 1998, the Cao Dai sect claimed 1.1 million adherents, and the Hoa Hao claimed 1.3 million.

Minority religions include various denominations of Protestantism, Hinduism, and Islam.

Since reunification in 1975, religious activities have been restricted, although freedom of religion is formally guaranteed in the 1980 constitution. The government granted permission in 1983 for church organizations to carry on activities that correspond to official policies, but it has cracked down on dissident elements that resist state control. In April 1999 the government issued a new decree on religion that prescribes the rights and responsibilities of religious believers. It states for the first time that no religious organization can reclaim lands or properties taken over by the State following the end of the 1954 war against French rule and the 1975 Communist victory in the south. The decree also states that persons formerly detained or imprisoned must obtain special permission from the authorities before resuming religious activities.

## 11 TRANSPORTATION

The war wreaked massive damage on Vietnam's transportation network, especially its railways, roads, and bridges. Further



LOCATION: 102°10' to 109°30' E; 8°30' to 23°22' N. BOUNDARY LENGTHS: China, 1,281 kilometers (796 miles); Cambodia, 982 kilometers (610 miles); Laos, 1,555 kilometers (966 miles). COASTLINE: 3,444 kilometers (2,140 miles). TERRITORIAL SEA LIMIT: 12 miles.

damage occurred during the Chinese invasion in 1979, after which direct rail and air connections with China were severed. The nation's truck fleet is ancient and seriously lacking in spare parts. Most goods move by small barges or sampans along the countless waterways. The length of inland navigable waterways totals about 17,702 km (11,000 mi), of which 29% is navigable year-round by vessels with less than a 1.8 m draft. Major ports such as Haiphong in the north and Da Nang in the south, are



frequently clogged with goods because many of the stevedores—often overseas Chinese—have fled abroad. In 2002, Vietnam had a merchant fleet of 153 ships totaling 527,920 GRT.

Recognizing its importance to economic growth, the government is making a major effort to improve the transportation network. The railroads are to be expanded. There were 3,142 km (1,952 mi) of operable track in 2002. There were 34 airports, 17 with permanent-surface runways in 2001. The nation's air fleet remains primitive, as the national airline (Hang Khong Vietnam) uses Soviet passenger liners built in the 1950s. In 2001, 3,410,300 passengers were carried on scheduled domestic and international flights. There were 93,300 km (57,977 mi) of roads in the country in 2001, but only 23,418 km (14,552 mi) were paved. There were an estimated 93,600 cars and several million motorcycles in 2000. The main route from Hanoi to Ho Chi Minh City badly needs improvement. In 1997, the government authorized the construction of a new north-south highway, the largest infrastructural project ever undertaken in Vietnam. The construction will take at least fifteen years, utilizing ten days of mandatory labor from almost every citizen between the ages of 18 and 45.

## 12 HISTORY

During the first millennium BC, the Lac peoples, the ancestors of the modern-day Vietnamese, formed a Bronze Age civilization in the vicinity of the Red River Delta in northern Vietnam. The Lac were primarily rice farmers, although those living in mountain valleys occasionally practiced the slash-and-burn agriculture now prevalent among nomadic tribes in the Central Highlands and the mountainous regions in the north. In the 3rd century BC, the Vietnamese kingdom of Van Lang was conquered by a Chinese military adventurer who incorporated the Red River Delta area into his own kingdom in southern China. A century later, Vietnam was integrated into the expanding Chinese empire. During 1,000 years of Chinese rule, Vietnamese society changed significantly as it was introduced to Chinese political and social institutions; Chinese architecture, art, and literature; and the Chinese written language. In AD 939, during a period of anarchy in China, Vietnamese rebels restored national independence.

During the next several hundred years, the Vietnamese Empire, then known as Dai Viet (Great Viet), gradually developed its own institutions and expanded steadily to the south. Under two great dynasties, the Ly (1009–1225) and the Tran (1225–1400), the Vietnamese fended off periodic attempts by China to resubjugate Vietnam, while gradually expanding southward at the expense of their southern neighbor, Champa. In the early 15th century, Chinese rule was briefly restored, but a national uprising led by Le Loi led to the expulsion of the Chinese and the formation of an independent Le Dynasty (1428–1788). Under the Le, expansion to the south continued, and the entire Mekong River Delta came under Vietnamese rule during the 17th century. But expansion brought problems, as a weakened Le court slipped into civil war between two princely families, the Trinh in the north and the Nguyen in the south.

The division of Vietnam into two separate political entities came at a time when European adventurers were beginning to expand their commercial and missionary activities into East and Southeast Asia. In 1771, a major peasant revolt led by the Tay Son brothers destroyed the Nguyen and the Trinh and briefly united the entire country under Emperor Nguyen Hue, ablest of the Tay Son. But a prince of the defeated Nguyen house enlisted the aid of a French Roman Catholic bishop and raised a military force that conquered the Tay Son and reunited the country under a new Nguyen Dynasty (1802–1945). When the founding emperor, Gia Long, died in 1820, his son Minh Mang refused to continue the commercial and missionary privileges granted by his predecessor to the French. In 1858, French forces attacked near Saigon and forced the defeated Vietnamese Empire to cede

territory in the area to the French, which became the colony of Cochinchina. In 1884, France completed its conquest of the country, establishing a protectorate over central and northern Vietnam (now renamed Annam and Tonkin). In 1895, the three sections of Vietnam were included with the protectorates of Laos and Cambodia into a French-ruled Indochinese Union.

In March 1946, the French and the DRV signed a preliminary agreement (the Ho-Sainteny Agreement) recognizing Vietnam as a "free state" in the new French Union. The agreement also called for a plebiscite in Cochinchina to permit the local population in that colony to determine their own future. During the summer of 1946, French and Vietnamese negotiators attempted without success to complete an agreement on the future of Vietnam. In September, Ho Chi Minh signed a *modus vivendi* calling for renewed talks early in 1947, but military clashes between Vietnamese and French troops in the DRV led to the outbreak of war in December 1946. The Franco-Viet-Minh war lasted nearly eight years, ending in July 1954 after a successful siege of the French garrison at Dien Bien Phu by Viet-Minh forces. According to the Geneva agreement signed on 21 July, Vietnam was temporarily partitioned along the 17th parallel, pending general elections to bring about national reunification. North of the parallel, the DRV began to build a Socialist society, while in the south, an anti-Communist government under the Roman Catholic politician Ngo Dinh Diem attempted with US aid to build a viable and independent state. In the summer of 1955, Prime Minister Diem refused to hold consultations with the DRV on elections called for by the Geneva accords. On 26 October, Diem proclaimed the Republic of Vietnam (RVN), with its capital at Saigon. In a referendum held three days earlier, Diem had defeated ex-Emperor Bao Dai, and in 1956, Diem became president of the RVN under a new constitution written with US support. With the Geneva accords thus abrogated, Vietnamese guerrillas, supported by the DRV, initiated low-level political and military activities to destabilize the Saigon regime. Their efforts were assisted by Diem's own shortcomings, as he brutally suppressed all political opposition and failed to take effective measures to bring to an end the unequal division of landholding in South Vietnam. The first Vietnamese attempts to resist French rule were ineffectual. Western-style nationalist movements began to form after World War I, and an Indochinese Communist Party, under the leadership of the veteran revolutionary Ho Chi Minh, was formed in 1930. After the collapse of France in World War II, Japan forced the French administration to accept a Japanese military occupation of Indochina. During the joint French-Japanese rule, Communist forces under the umbrella of the Viet-Minh Front began to organize for a national uprising at the end of the war. In March 1945, the Japanese, nearing defeat, disarmed the French and seized full administrative control over French Indochina. At the same time, the Japanese set up a puppet government, with Bao Dai, the figurehead emperor of Vietnam, as nominal ruler. Shortly after Japan surrendered to Allied forces in August 1945, Viet-Minh forces, led by the Indochinese Communist Party, launched the nationwide August Revolution to restore Vietnamese independence. On 2 September, President Ho Chi Minh declared the formation of an independent Democratic Republic of Vietnam (DRV) in Hanoi. Under the Potsdam agreements, Nationalist Chinese troops occupied all of Indochina north of the 16th parallel, while British troops occupied the remainder of the old Indochinese Union. Chinese commanders permitted the Viet-Minh to remain in political control of the north, but the British assisted the French to restore their authority in the south.

In December 1960, revolutionary forces in the south formed a National Liberation Front (NLF) to coordinate political activities against the Diem regime. Guerrilla activities by the People's Liberation Armed Forces (known in the United States as the Viet-Cong) were stepped up, and Hanoi began to infiltrate trained

cadres from the north to provide leadership to the revolutionary movement. Despite increasing economic and military assistance from the United States, the Diem regime continued to decline, and in November 1963, Diem was overthrown by a military coup waged with the complicity of US president John F. Kennedy's administration, which had watched in dismay as Diem had alienated Buddhist elements by his open favoritism to fellow Roman Catholics. A Military Revolutionary Council, led by the popular southern general Duong Van (Big) Minh, was formed in Saigon. General Minh promised to continue efforts to defeat the insurgency movement in the south but was unable to reverse the growing political anarchy in Saigon. Early in 1964, he was replaced by another military junta. During the next 15 months, a number of governments succeeded each other, while the influence of the NLF, assisted by growing numbers of regular troops that were infiltrating from the north, steadily increased in the countryside. By early 1965, US intelligence was warning that without US intervention, South Vietnam could collapse within six months.

Beginning in February 1965, US president Lyndon Johnson took two major steps to reverse the situation in South Vietnam. American combat troops were introduced in growing numbers into the south, while a campaign of heavy bombing raids was launched on military and industrial targets in the north. In Saigon, the political situation stabilized with the seizure of power by a group of army officers led by Nguyen Van Thieu and Nguyen Cao Ky. Encouraged by the United States, the new military regime drafted a constitution, and in elections held in September 1967, Gen. Thieu was elected president of the country. By 1967, US troop strength in South Vietnam had reached over 500,000, while US air strikes over DRV territory were averaging about 100 sorties a day. The Hanoi regime attempted to match the US escalation by increasing infiltration of North Vietnamese military units into the south, but under the sheer weight of US firepower, the revolution began to lose momentum, and morale was ebbing.

On 30 January 1968, in an effort to reverse the military decline on the battlefield and encourage the growing popular discontent with the war in the United States, Hanoi launched the Tet Offensive, a massive effort to seize towns and villages throughout the south. The attempt to seize Saigon or force the collapse of the Saigon regime failed to achieve its objective, but the secondary aim of undermining support for the war in the United States succeeded. President Johnson canceled plans to increase the US military commitment and agreed to pursue a political settlement. To bring about negotiations with Hanoi, a complete bombing halt was ordered on 1 November, just before the US presidential election that brought Richard M. Nixon to office as the new Republican president. President Nixon announced a policy of "Vietnamization," according to which US forces would be gradually withdrawn and the bulk of the fighting in the south would be taken over by RVN forces. On 30 April 1970, in order to destroy enemy sanctuaries beyond the South Vietnamese border, US and South Vietnamese forces invaded neutral Cambodia. The invasion backfired, however, stimulating the rise of revolutionary activities by the Hanoi-supported Cambodian Communist movement and arousing protests in the United States that the war was being expanded. The withdrawal of US military forces continued, and in March 1972, the DRV attempted to test the capability of the South Vietnamese forces by launching a direct offensive across the 17th parallel. The "Easter Offensive" succeeded in capturing the provincial capital of Quang Tri, but further gains were prevented by the resumption of US bombing raids.

By this time, both sides were willing to compromise to bring the war to an end; on 26 October 1972, the DRV announced that the secret talks between US secretary of state Henry Kissinger and its representative, Le Duc Tho, had produced a tentative

agreement. Hanoi agreed to recognize the political authority of President Nguyen Van Thieu in Saigon, while the United States agreed to complete the withdrawal of US forces without demanding the removal of existing North Vietnamese troops in the south. The negotiations briefly ran aground in late autumn, leading President Nixon to order an intensive bombing assault on the DRV, but the talks resumed in early January, and the Paris Agreement was formally signed on 27 January 1973.

The Paris Agreement and the withdrawal of US forces by no means signaled the end of the conflict. Clashes between revolutionary forces and South Vietnamese units continued in the south, while provisions for a political settlement quickly collapsed. In January 1975, North Vietnamese forces in the south launched a major military offensive in the Central Highlands. When South Vietnamese resistance in the area disintegrated, further attacks were launched farther to the north, and by late March the entire northern half of the country was in North Vietnamese hands. President Thieu resigned on 21 April, but his successor, General Duong Van Minh, was unable to achieve a negotiated settlement. The capital of the RVN, Saigon, was occupied by North Vietnamese troops on 30 April. Thus ended a war in which some 2,000,000 Vietnamese and more than 56,000 Americans were killed and an estimated 4,000,000 people were injured. In the DRV, US bombing was estimated to have destroyed 70% of the industrial plants; in the RVN, more than 4 million were homeless. During the 1950–74 period, total US economic and military aid to Vietnam was \$23.9 billion (including \$16.1 billion in direct military aid), representing the largest bilateral assistance program in modern history. Chinese aid to the DRV (according to intelligence estimates) probably averaged over \$200 million a year. No complete figures are available on the extent of Soviet assistance to the DRV, but some scholars estimate it at about \$1 billion annually.

During the next 15 months, the DRV moved to complete national reunification of north and south. Nationwide elections for a new National Assembly were held on 25 April 1976. On 24 June, the first Assembly of the unified country met and proclaimed the establishment on 2 July of the Socialist Republic of Vietnam (SRV), with its capital remaining at Hanoi. In December, the Communist Party, known as the Vietnamese Workers' Party since 1951, was renamed the Vietnamese Communist Party. The NLF was dissolved into a nationwide Fatherland Front for the entire country. The nation's Communist leadership, with Le Duan the general secretary of the Communist Party and Pham Van Dong the prime minister, remained unchanged, while loyal members of the revolutionary movement in the south were given positions of prominence at the national level. Ton Duc Thang, figurehead president of the DRV after the death of Ho Chi Minh in 1969, remained in that position until his death in 1980.

Economic reconstruction and the building of a fully Socialist society proved more difficult than reunification. Nationalization of industry and collectivization of agriculture had been achieved in the north in the late 1950s, but the south proved more resistant to official efforts to end private enterprise after 1975. When the regime attempted to destroy the remnants of capitalism and private farming in the south in 1978, thousands fled, and the economy entered a period of severe crisis. Its problems were magnified by the outbreak of war with China. In December 1978, Vietnamese forces had invaded neighboring Kampuchea (known as Cambodia until 1976 and again from 1989) to overthrow the anti-Vietnamese government of the revolutionary Pol Pot. A pro-Vietnamese government was installed in early January 1979. China, which had been supporting Pol Pot to retain its own influence in Southeast Asia, mounted a punitive invasion of North Vietnam in February 1979. After a short but bitter battle that caused severe casualties on both sides, the Chinese forces withdrew across the border. China, however, continued to

support guerrilla operations led by Pol Pot against the government in Kampuchea.

During the 1980s, the SRV attempted to recover from its economic crisis. Party leaders worked out a compromise permitting the survival of a small private sector while maintaining a program of gradual Socialist transformation. With the death of Le Duan in June 1986, a new leadership emerged under General Secretary Nguyen Van Linh at the Sixth National Party Congress. This leadership promised a new “openness” in political affairs and a policy of economic renovation (*doi moi*) to improve the livelihood of the population. A strong conservative coalition of party leaders seriously reduced Linh’s effectiveness as they stressed the dangers of political liberalization and slowed the pace of economic reform. In March 1988 Prime Minister Pham Hung died, and Linh’s choice of a conservative replacement, Do Muoi, was a clear concession to these groups.

Economic recovery continued to be difficult due to a serious lack of investment capital, resources, and technical skills. The SRV’s internal problems were compounded by the continuing dispute with China. To protect itself from Chinese intimidation, Hanoi had formed a military alliance with the USSR and was deeply dependent upon Soviet economic assistance. The continuing civil war in Kampuchea also represented a steady drain on the SRV’s slender resources and prevented foreign economic assistance, particularly from the United States. In December 1988 the constitution was amended to remove derogatory references to the United States, China, France and Japan, as an attempt to improve international relations. In August 1991 Do Muoi resigned as prime minister. His successor Vo Van Kiet favored free-market reforms. A new constitution was adopted by the National Assembly in April 1992. A general election took place in July 1992 and, for the first time, independent candidates were allowed to present themselves, but neither of the two deemed qualified were elected. On 23 September 1992, the National Assembly elected Lu Duc Anh as president and reelected Vo Van Kiet as prime minister.

In January 1989 the first direct talks between Vietnam and China since 1979 resulted in Vietnam’s agreement to withdraw its troops from Cambodia by the end of September 1989 and China’s agreement to end aid to the Khmer Rouge guerrillas once the Vietnamese withdrawal was achieved. Later, Vietnam insisted that the withdrawal was contingent on the end of all foreign military aid to factions opposing Cambodian Prime Minister Hun Sen. Hanoi hoped to use the September 1989 withdrawal of its troops from Cambodia as leverage for improved relations with the Association of Southeast Asian Nations (ASEAN), Japan, and the West. On 23 October 1991 a Cambodian peace agreement was signed, paving the way for Vietnam’s eventual entry into ASEAN, which occurred in 1995.

During the 1990s, Vietnam stepped up its efforts to attract foreign capital from the West and regularize relations with the world financial system. At the same time, the country struggled with its intention not to descend too deeply into Western style consumerism, as demonstrated in 1996, when the government, while continuing to court foreign investment, banned consumer-goods advertising in foreign languages. That move angered Western investors and free-market Vietnamese, but marked the beginning of a countrywide attempt to purge society of overt Western decadence. Analysts attributed the drive to the aging hard-line leadership who looked at the *doi moi* reforms with intense skepticism.

After joining ASEAN in 1995, Vietnam began reframing its trade laws and began instituting legal reforms aimed at codifying its sometimes capricious statutory system. During 1995, a significant year in Vietnam’s opening up to the world, the Communist Party held two meetings to discuss the establishment of a law-based civil society to replace the decades-old system of rule by fiat. In this spirit, the National Assembly passed a series

of laws aligning the country with international standards on copyright protection—needed for World Trade Organization (WTO) membership—and other areas. An extensive document, called the Civil Code, was passed containing 834 articles ostensibly granting the Vietnamese people greater civil liberties. Other measures were decidedly investor-unfriendly, such as Prime Minister Kiet’s decree that no more land would be turned over from rice production to industrial use. Subsequently, Vietnam’s foreign investment rate slid from a peak of \$8.6 billion in 1996, to just \$1.4 billion in 1999.

In June 1996, the Communist Party held its eighth congress, its first full congress since 1991. Much was expected from the congress in light of the country’s ambiguous and, at times, conflicting moves toward openness and reform over the 12 years of *doi moi*. The congress returned to power the aging leadership, granting additional five-year terms to General Secretary Do Muoi, President Le Duc Anh, and Prime Minister Vo Van Kiet. The Party issued decrees in favor of continued economic reform and international investment, but balked at the kind of market liberalization most internationalist investors perceive as necessary to the creation of a viable economy.

After the long war between the Communists and the United States, 30 April 2000 marked Vietnam’s reunification. Celebrations of the occasion, with military parades and a carnival atmosphere, were followed by the 6 May funeral of former prime minister Pham Van Dong. One of the original troika leading Vietnam during the struggle against France and the United States, Dong (born in 1906) had been an influential, unswerving Communist conservative. It remains to be seen whether the inevitable winnowing of Vietnam’s “gerontocracy” will result in significant liberalization.

Severe, violent unrest in the countryside during 1997 led to punishment of rural officials for corruption, and increased awareness of agricultural concerns. As much as 80% of Vietnam’s population lives in farming communities. Expressions of rural discontent continued to emerge, even in the form of peasant anticorruption protests in the streets of Ho Chi Minh City. The Party hierarchy was somewhat reshuffled during 1997’s central committee meetings. Tran Duc Luong was selected as the new president (the third most powerful rank in the troika including general secretary and prime minister.) Phan Van Khai became prime minister. The ultimate hard-liner, Do Muoi, was succeeded as the Party’s general secretary by Gen. Le Kha Phieu. Muoi remained a highly influential advisor to Phieu, and some observers feel that Muoi’s constant pressure to hold the hard line kept Phieu from coming into his own as a possibly more progressive leader.

As aftereffects of the Asian economic crisis stunted the growth of Vietnam’s economy, the country remained poor at the beginning of the 21st century. In spite of strides in rice production, literacy and education, unemployment outpaces economic growth. Rural infrastructure languishes, and the urban gap between a rich elite and struggling masses is enormous. Socialist rhetoric and retrenchment failed to heal the divide, which also exists between North and South. Some effort has been made to recognize Party officials from the South, such as early 2000s appointment of Truong Tan Sang, who had been Ho Chi Minh City’s Party head, to lead the Party’s economic commission. The reformists within the Party have never been completely marginalized, only outmaneuvered by the old-time Marxists. Retired General Tran Do’s open criticism of corruption and other failures of the system resulted in his expulsion from the Party in January 1999. General Tran Do endured other forms of harassment, but it was not as severe as that meted out to other dissidents, due to his revered war veteran, communist faithful, status. He died on 9 August 2002.

Issues of importance relevant to Vietnam’s reintegration into the international system have included the status of Vietnamese

refugees; border and troop withdrawal disputes with Cambodia, Thailand, and the People's Republic of China; conflicts over the Spratly and Paracel island groups in the South China Sea; conflicts with the United States over the recovery of the remains of US soldiers missing-in-action (MIA); and Vietnamese cooperation in a diplomatic settlement in Cambodia. In October 1991 Vietnam agreed to accept the forced repatriation of Vietnamese refugees—known as boat people—who were designated economic migrants, not seekers of political asylum. The boat people were in camps around Asia from 1975–1994. The “comprehensive plan of action” adopted by the UN High Commission for Refugees in 1989 reduced the number of boat people fleeing Vietnam. In 1994, the Commission decided that all those still living in camps were to be repatriated.

The Soviet economic assistance on which Vietnam had depended, withered away with the collapse of the USSR, although technical help from Russia remains important. With the loss of major Soviet aid, Vietnam's relations with the West began to warm considerably. In June 1992, Vietnam announced that all South Vietnamese officials had been released from reeducation camps, a US-mandated prerequisite for lifting its embargo against Vietnam. As a result, on 3 February 1994 President Bill Clinton lifted the US trade embargo against Vietnam. At the time Clinton lifted the embargo, there were still 2,238 US servicemen listed as missing. Vietnam agreed to cooperate with their recovery to the “fullest possible extent.” Vietnam and the United States established full diplomatic relations in 1995. Trade between the United States and Vietnam has still been stymied by wrangling over agreements, including a stalemate in trade normalization talks in May 2000; however, in December 2001, Vietnam and the United States normalized trade relations. Vietnam does not want to be perceived by China as overly friendly with the United States, and the Party elite is very reluctant to embark on the economic overhaul that the United States demands. This resistance to change mandated from outside has kept Vietnam from World Bank, International Monetary Fund, and World Trade Organization benefits, but has earned it some admiration among those who oppose those institutions' dominance. Vietnam's international economic relations often appear confused or confusing to observers, as the Party attempts to balance a certain level of openness with the strong will to preserve a socialist system that has become a rarity in the global economy.

Print and broadcast media remain firmly state-dominated. In January 2002, the Communist Party ordered the seizure and destruction of unauthorized books written by leading dissidents. Relations with Canada soured when Vietnam executed a Vietnamese-Canadian woman on heroin charges in April 2000. The US government (particularly members of Congress) remains critical of Vietnam's human rights policies, including arbitrary arrest and detention of citizens. In contradiction to assertions of commitment to the cause of human rights, authorities continue to severely limit freedom of speech, press, assembly and association, workers' rights, and rights of citizens to change their government. In 1995, for instance, nine Vietnamese were sentenced to 4–15 years in prison for attempting to convene a conference on democracy and human rights. Six members of a banned Buddhist group were sentenced to up to five years in prison for “sabotaging religious solidarity,” and two longtime Communist Party members were sentenced to 12–15 months in jail for calling for political pluralism. Members of Vietnam's ethnic minorities such as the indigenous hill peoples have had difficulty protecting their land from logging and other encroachments. To celebrate the reunification anniversary in 2000, a large-scale amnesty of prisoners was held, which may have included political dissidents.

A May 2000 report, “Vietnam: Silencing of Dissent” by Human Rights Watch, detailed ways in which those expressing views counter to the Party line are subjected to “harassment and intimidation,” although it noted that Vietnam has fewer actual

political prisoners than in the past. The arrival of Internet access in Vietnam began to provide a means for free expression, although so far Internet content is government-monitored. In August 2001, the government passed a decree that imposed stricter regulations on Internet cafes and imposed fines for illegal Internet usage, while opening up provision of Internet services to privately owned businesses, including foreign companies. The government controlled the operation of the sole Internet access provider. In August 2002, the government proposed severe penalties for Internet cafe owners who allow customers to visit anti-government or pornographic websites. There were approximately 4,000 Internet cafes in 2002.

The controversy between the People's Republic of China and the SRV over the control of the Spratly and Paracel archipelagos in the South China Sea dates to the early part of the 20th century. After the Vietnam War, when oil supplies became an issue, the dispute intensified, leading to numerous armed clashes between China and Vietnam. Vietnam, China, the Philippines, Brunei, Taiwan, and Malaysia claim all or part of the Spratly and Paracel archipelagos. These competing claims have broad geopolitical implications regarding oil reserves, fishing rights, rights of passage for ships, prevention of nuclear dumping, and security in the region. In 1995, China occupied Mischief Reef, on an island in the area claimed by the Philippines and later that year China signed an agreement with a US oil exploration firm to drill for oil in waters claimed by Vietnam. As a member of ASEAN, Vietnam took its complaint to that body. In March 1997, a meeting of the ASEAN ambassadors was convened in Hanoi and the regional bloc emerged united in opposition to China's move against what they officially recognized as Vietnam's legal territory, marking the first time the ASEAN nations stood up in defiance of Beijing. The disputes over the islands remain unresolved as of early 2003.

At the ninth Party congress held in April 2001, reform-minded National Assembly chairman Nong Duc Manh was chosen as General Secretary to replace the unpopular Le Kha Phieu, who was increasingly seen as an obstacle to Vietnam's modernization. Manh is believed to be the illegitimate son of Ho Chi Minh. There is evidence of some division within the Party, as some more conservative members are concerned about the perceived negative effects of economic growth, such as corruption and drug trafficking, whereas a more reformist bloc is interested in separating the government from the Party and in creating a greater role for the private sector. In 2002, the Party revised its rules to allow members to engage in private business. At the meeting of the National Assembly in July 2002, Prime Minister Phan Van Khai and General Secretary Nong Duc Manh, among others, identified corruption as one of the government's main challenges. By September, more than 100 government officials had been arrested, more than 50 police officers had been suspended from duty, and two members of the Central Committee were expelled from the Party for dealings with Nam Cam, a crime figure involved in drug, prostitution, and protection rackets.

In National Assembly elections held on 19 May 2002, approximately 700 candidates competed for 498 seats, some of whom were independents. However, a government body, the Fatherland Front, was responsible for screening candidates. No opposition parties contested the vote. In July 2002, President Tran Duc Luong was reappointed for a second term by the National Assembly, which also reappointed Prime Minister Phan Van Khai for a second five-year term.

### 13 GOVERNMENT

The Communist Party-controlled government of Vietnam has ruled under four state constitutions. The first was promulgated in 1946, the second in 1960, the third in 1980, and the fourth in 1992.

The 1946 constitution of the Democratic Republic of Vietnam (DRV), adopted shortly before the war with the French, was never fully implemented because of wartime conditions. On 1 January 1960, a new constitution was promulgated, instituting a largely presidential system to capitalize on Ho Chi Minh's considerable prestige. In the Republic of Vietnam (RVN), formerly South Vietnam, two constitutions were promulgated. The first, by the regime of Ngo Dinh Diem was introduced in 1956. The second was put forth when Nguyen Van Thieu was elected president in 1967. Like the DRV constitution, it created a modified presidential system, with a cabinet responsible to the legislative branch. Following the fall of the RVN in 1975, the north moved quickly toward national reunification. A nationwide National Assembly was elected in April 1976, and the Socialist Republic of Vietnam was proclaimed in early July. In December 1980, the SRV adopted a new constitution for the entire country. The new charter, more doctrinaire than its predecessors, described Vietnam as a "proletarian dictatorship" led by the Communist Party, and called for an early transition to full Socialist ownership. The highest state authority was the National Assembly. Members were elected for five-year terms by universal adult suffrage at age 18. The Assembly appointed the Council of Ministers (a cabinet of 33 ministers), the chairman of which ranked as premier. The Council of State (12 members in 1987) served as the collective presidency of Vietnam, elected by the National Assembly from among its own members and accountable to it.

In 1992 a new constitution was adopted by the National Assembly. Like the 1980 constitution it affirmed the central role of the Communist Party, stipulating that the party must be subject to the law. In support of a free-market economy, constitutional protection of foreign investment was guaranteed. However, land remained the property of the state, with individuals or enterprises entitled to the right to long-term leases that can be inherited or sold. The newly created position of president replaced the Council of State; the president has the right to appoint a prime minister subject to the approval of the National Assembly. The National Assembly, with a maximum of 400 members, retained legislative power. Members are elected to five-year terms by universal adult suffrage. As of 2002, there were 498 members of the National Assembly.

## 14 POLITICAL PARTIES

The government of the SRV is a de facto one-party state ruled by the Vietnamese Communist Party (VCP). The Vietnamese Communist Party is the political successor to the Indochinese Communist Party, created in 1930 and formally dissolved in 1945. From 1945 until 1951, the party operated in clandestine fashion, until it emerged once more as the Vietnamese Workers' Party at the Second National Congress in 1951. The party assumed its current name in 1976, shortly after the unification of the country into the Socialist Republic of Vietnam.

The Communist Party is administered through an assembly of national delegates. National party conventions elect a Central Committee to guide party affairs between sessions of the national convention. The Central Committee in turn elects the Politburo, the highest policy making body, and a secretariat to direct day-to-day party operations.

The Fatherland Front is the linear successor of the Viet-Minh Front, formed in 1941 to provide the Communist Party with a broad organization to unify all elements in Vietnam against the French colonial regime. The Fatherland Front was formed in North Vietnam in 1955 as a device to mobilize the population to support the regime's goals. A similar organization, the National Liberation Front (NLF), was established in South Vietnam in 1960 by Nguyen Huu Tho to provide a political force in favor of national reunification. After the fall of the RVN in 1975, the NLF was merged into the Fatherland Front.

Under the RVN government, development of a political party system in the Western sense never passed the rudimentary stage. President Thieu, who headed the People's Alliance for Social Revolution, tried to consolidate anti-Communist political organizations in the RVN through a multiparty National Social Democratic Front, but formal political organizations were weak and plagued with religious and regional sectarianism. Wartime conditions and the lack of a national tradition of political pluralism were additional factors preventing the rise of a multiparty system. All such parties were abolished after the fall of Saigon in 1975.

In the SRV, elections for national and local office are controlled by the Communist Party and the state. In the July 1992 general elections 601 candidates contested 395 National Assembly seats. For the first time independent candidates—not Communist Party members or endorsed by organizations affiliated with the Party—were permitted to contest seats, although they did require Party approval in order to present themselves. Two candidates qualified, but neither was elected. In 1996, the Communist Party held its eighth congress, at which it was widely expected a new generation of leaders would be inaugurated; but, again the aging hard-line leaders were given another five-year term in office as the country struggled with the consequences of 12 years of economic reform and increased international openness. In 1998's national elections, the first three "self-nominated" candidates (not proposed by the Party or the Fatherland Front) managed to gain seats in the 450-member National Assembly. Women held 26% of seats in the National Assembly as of May 2000, but have not yet risen to the top echelons of the Party. At the ninth party congress held in April 2001, National Assembly chairman Nong Duc Manh was chosen as general secretary, which was seen as a step toward reform. In the 19 May 2002 elections for the 498-member National Assembly, some independents competed for seats, although the Fatherland Front was responsible for approving them. No opposition parties contested the vote. The Communist Party took 90% of the vote (447 seats); the other 10% (51 seats) was won by candidates who are not Party members but were approved by the Party.

## 15 LOCAL GOVERNMENT

Vietnam is divided into 58 provinces (*tinb*), and three municipalities (*thu do*)—Hanoi, Haiphong, and Ho Chi Minh City—all administered by the national government. Districts, towns, and villages are governed by locally elected people's councils. Council candidates are screened by the party. Council members' responsibilities include upholding the constitution and laws and overseeing local armed forces units. The councils in turn elect and oversee executive organs, called people's committees, to provide day-to-day administration. The entire system functions in a unitary fashion, with local organs of authority directly accountable to those at higher levels.

## 16 JUDICIAL SYSTEM

The judicial system of the SRV parallels that of the former DRV. The highest court in Vietnam is the Supreme People's Court, whose members are appointed for five-year terms by the National Assembly on the recommendation of the president. In addition, there are local people's courts at each administrative level; military courts; and "special courts" established by the National Assembly in certain cases. Law enforcement is handled by the People's Organs of Control; the president, or procurator-general, of this body is appointed by the National Assembly.

Although the constitution provides for the independence of judges and jurors, there is close control of the entire governmental system by the Vietnamese Communist Party (VCP) and a judicial selection process which favors appointment of jurists supportive of the VCP. Prison sentences are frequently

imposed through administrative procedures without the protections of procedural due process or judicial review.

Trials are generally open to the public. Defendants have the right to be present at the trial, to have an attorney, and to cross-examine witnesses. The legal system is based on communist legal theory and French civil law. Rising crime, including violent robbery and extortion, in the cities, plus endemic corruption and smuggling, provide challenges for under-funded law enforcement agencies and the criminal justice system.

## 17 ARMED FORCES

Since reunification in 1975, Vietnam has emerged as one of the world's leading military powers. As of 2002, the People's Army of Vietnam was estimated at 484,000. Of that figure, the regular army had about 412,000 personnel, the air force 30,000, and the navy 42,000. Reserves numbered between 3–4 million. Armaments included about 1,200 main battle tanks, 629 light tanks, two submarines, six frigates, 189 combat aircraft, and 26 armed helicopters. There is a border defense corps of 40,000 personnel. Also, local forces may number between 4–5 million in a rural unit people's militia. Military expenditures were \$650 million in 1998 or 2.5% of GDP.

## 18 INTERNATIONAL COOPERATION

The SRV was admitted to UN membership on 20 September 1977. The nation belongs to ESCAP and all the nonregional specialized agencies. Vietnam is also a member of the Asian Development Bank and G-77, has observer status at the WTO, and is a signatory to the Law of the Sea.

By 2003, the SRV had diplomatic relations with more than 170 countries. The United States lifted its trade embargo with Vietnam in February 1994, and on 11 July 1995, President Bill Clinton normalized diplomatic relations with the country. The first US embassy opened in Hanoi on 6 August 1995.

## 19 ECONOMY

Wet-rice agriculture is the most important segment of the Vietnamese economy, and approximately 63% of the population was engaged in agriculture in 2002, down from 66% in 1997, producing 25% of the GDP. While agriculture has continued growth, transforming Vietnam from a net importer 15 years ago into the second-largest exporter of rice, industry has grown even faster. The most diversified area in Southeast Asia in terms of mineral resources, Vietnam is well endowed with coal, tin, tungsten, gold, iron, manganese, chromium, and antimony. Foods, garments, shoes, machines, cement, chemical fertilizer, glass, tires, oil, coal, steel, and paper are the main industrial products. Most of the nation's mineral resources are located in the north, while the south is a major producer of rice and tropical agricultural products, such as rubber, coffee, and tea. The war took its heaviest economic toll on Vietnam's infrastructure, which even in the best of times was far from adequate to afford access to and mobilization of the country's agricultural and industrial resources. Further setbacks came in the late 1970s. In 1976, the regime announced a five-year plan, calling for rapid industrialization and Socialist transformation by the end of the decade. According to official sources, in 1978 floods destroyed 3 million tons of rice, submerged over 1 million hectares (2.5 million acres) of cultivated land, and killed 20% of all cattle in the affected areas along the central coast. The termination of all Chinese aid in the same year, followed by the Chinese attack on the north in February–March 1979, dealt the economy further blows. Vietnam's economy had already been weakened by the military effort in Kampuchea (known as Cambodia until 1976 and again after 1989) and by the suspension of food aid from the EC, the United Kingdom, Australia, and New Zealand because of objections to Vietnam's refugee policies. Reportedly, the country came close to general famine in 1979.

In 1979, faced with serious shortages of food and consumer goods, Vietnamese leaders approved a new program granting incentives for increased productivity and delaying the construction of farm collectives in the southern provinces. During the 1981–85 five-year plan, emphasis was placed on agriculture and the production of consumer goods. Economic performance improved in the early 1980s, with the growth rate estimated at about 10% annually. Price inflation, however, became a major problem, averaging 700% in 1986–87.

Policy changes were introduced incrementally with economic liberalization preceding consideration of political liberalization. On 3 February 1994 US president Clinton lifted the trade embargo against Vietnam that had been in place for 33 years. The reforms helped Vietnam's economy to grow at a rate of 9% a year during most of the 1990s and by almost 10% in 1996. Growth in the industrial sector was especially strong at over 12% annually between 1988 and 1997. In Hanoi, the increased presence of a foreign community spurred the availability of western-style restaurants and bars, hotel and airport renovation and upgrading, accessible public telephones, and advertising of consumer goods. However, with the onset of the Asian financial crisis, triggered in June 1997 by the return of Hong Kong to Chinese Rule, growth, which was 8.2% for the year in 1997, dropped to 3.5% in 1998 and 4.5% in 1999. Growth increased to 6.7% in 2000, and to 6.8% in 2001. Projected growth for 2002 is 7%.

Unemployment grew during the 1990s to an estimated 25% in 1995. Several factors contributed to Vietnam's growing unemployment: natural increases in the population; monetary and other adjustments for hyperinflation, which intensified the unemployment problem by limiting growth in some sectors of the economy; the return of demobilized troops from Cambodia; repatriation of refugees; workers laid off from state enterprises; and returning guest workers. However, with capital investment, this labor force could be turned into a resource for growth in labor-intensive manufacturing, considering the low wage base in Vietnam, the high skills levels, and high motivation. Unemployment in urban centers was reported as 6.44% in 2000 and 6.28% in 2001. In the Red River delta, unemployment was 7.34% in 2000 and 7.07% in 2001. Rural underemployment was estimated at 26.1% for 2000 and 25.7% for 2001. Inflation, which jumped from 3.1% (period average) in 1997 to 7.9% in 1998, moderated to 4.1% in 1999, and has been at negligible levels since: -1.7% in 2000 and 0.8% in 2001. The Party leadership is concerned about persistent unemployment and underemployment, the widening gap between rich and poor, and increases in bankruptcy, prostitution, and corruption.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Vietnam's gross domestic product (GDP) was estimated at \$168.1 billion. The per capita GDP was estimated at \$2,100. The annual growth rate of GDP was estimated at 4.7%. 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 25% of GDP, industry 35%, and services 40%. Foreign aid receipts amounted to about \$18 per capita and accounted for approximately 4% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$256. 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 49% of household consumption was spent on food, 15% on fuel, 4% on health care, and 18% on education.

The richest 10% of the population accounted for approximately 29.9% of household consumption and the poorest 10% approximately 3.6%. It was estimated that in 1998 about 37% of the population had incomes below the poverty line.

## 21 LABOR

The labor force was estimated at 38 million persons in 1998. In 2002, agriculture (including forestry and fishing) employed 63% of the labor force, with industry, construction and services providing work for the remainder. Unemployment in 1995 was estimated at 25%.

As of 2002, Vietnamese workers were not free to form or join independent unions. The government-controlled Trade Union Federation of Vietnam (VGCL) is the sole labor organization, and all workers automatically become members of the union of their workplace. In 2001, the VGCL had four million members throughout the country, including 95% of all public sector employees, 90% of workers in state-owned enterprises, and 70% of private sector workers. Strikes are prohibited at enterprises that serve the public or are important to the national economy or defense, and the Prime Minister decides what enterprises come under that definition. Most strikes occur against foreign enterprises.

The minimum age for full-time employment is 18, with special provisions for those between 15 and 18 years of age. However, many children work in violation of this law, especially in the informal economy. The Labor Law requires the government to set a minimum wage, which was \$30 per month for foreign-investment joint ventures in 2002. Outside of these enterprises the minimum was set at \$12 per month. Working hours are set by law at eight hours per day with a mandatory 24-hour rest period per week. Working conditions are slowly improving.

## 22 AGRICULTURE

Nearly 63% of the labor force of the SRV derives its livelihood from agriculture; arable land in 1998 was 7,202,000 hectares (17,796,000 acres), of which 1,534,000 hectares (3,790,000 acres) were in permanent crops.

Only about 15% of the land in the north is arable, and 14% of it is already under intensive cultivation. Agriculture in the north is concentrated in the lowland areas of the Red River Delta and along the central coast to the south. The Mekong Delta, among the great rice-producing regions of the world, is the dominant agricultural region of the south. Excess grain from the area is shipped to the northern parts of the country. Annual food-grain production averaged 20 million tons in the early 1990s, reaching 33.2 million tons in 1999.

Rice, the main staple of the Vietnamese diet, occupies 94% of arable land. In the north, two and in some cases three crops a year are made possible through an extensive system of irrigation, utilizing upward of 4,000 km (2,500 mi) of dikes. Single-cropping remains the rule in the south, where heavy rains fall for six months of the year and virtually no rain at all during the other six months. The southern region's extensive network of canals is used mainly for transport and drainage, although some irrigational use was attempted under the RVN government. Rice production between 1975 and 1980 was adversely affected by bad weather and the regime's attempt to promote collectivization, but it began to rebound during the early 1980s. In 1980, 11.7 million tons of paddy rice were produced; output rose to 16.2 million tons in 1985 and to 19.2 million tons in 1990. Production totaled 31.4 million tons in 1999.

Other crops include corn, sorghum, cassava, sweet potatoes, beans, fruits, and vegetables. In 1999, estimated production (in thousands of tons) was sugarcane, 17,840; corn, 1,752; groundnuts in shell, 386; and soybeans, 148. Rubber, formerly a major crop and a leading source of foreign exchange, was grown mostly on large plantations organized under the French colonial

regime. As a result of the Vietnam war, practically all of the large plantations in the "redlands" area in the south were shut down, and damage to the trees was severe. In 1975, the SRV announced that rubber workers had resumed the extraction of latex from hundreds of thousands of rubber trees on plantations north and northwest of Ho Chi Minh City, most of which had lain fallow for years. Rubber production was given high priority by the Hanoi regime and increased from 40,000 tons in 1975 to an estimated 215,000 tons in 1999. Other industrial and export crops produced in Vietnam include coffee, tea, tobacco, pepper, and jute. In 1999, 487,000 tons of coffee, 62,000 tons of tea, 9,000 tons of jute, 35,000 tons of tobacco, and 70,000 tons of cashews were harvested.

Agriculture in the north has reached an advanced stage of collectivization. A land-reform program completed in 1956 distributed 810,000 hectares (2,002,000 acres) to 2,104,000 peasant families. The share of the Socialist sector in agricultural land increased from 1% in 1955 to 95% in 1975. By 1977, the north had 15,200 agricultural cooperatives and 105 state farms.

In the south, rapid collectivization began in 1978, when the regime announced a program to place the majority of southern farmers in low-level cooperative organizations by the end of the 1976-80 five-year plan. Popular resistance was extensive, however, and by 1981, less than 10% of the rural population was enrolled in full-scale collectives and a roughly equal number in low-level, semi-Socialist production solidarity teams and production collectives.

In an effort to make collectivization more palatable, the regime announced a "household contract" system, permitting members of cooperatives to lease collective land in return for an agreed proportion of total output. This system apparently encouraged many peasants to join cooperative organizations, and the regime announced in mid-1986 that collectivization at the low level had been "basically completed" in the south, with 86.4% of the rural population enrolled in some form of collective organization.

## 23 ANIMAL HUSBANDRY

The most important aspect of animal husbandry in the SRV remains the raising of draft animals, mainly water buffalo. Lack of feed, shelter, and technical guidance and an inability to control disease combine with the legacy of war damage to hinder the growth of this sector. Increasing the livestock is now a major priority of the Hanoi regime. The sizes of herds in 2001 (with 1975 figures in parentheses) was as follows: hogs, 21,740,000 (8,800,700); buffalo, 2,807,000 (2,193,000); and cattle 3,900,000 (1,485,000). Vietnam also had an estimated 561,000 goats, 121,000 horses, 153 million chickens, and 57 million ducks in 2001. Meat production totaled 2,004,000 tons in 2001, with pork accounting for 70%; poultry, 19%; buffalo and other meat, 11%.

## 24 FISHING

Fresh and dried fish and fish sauce (known as nuoc mam) are major ingredients of the Vietnamese diet, and fishing is an important occupation. Shrimp, lobster, and more than 50 commercial species of fish are found in Vietnamese waters. Ha Long Bay, the major fishing area of the north, is particularly rich in shrimp and crayfish. Fish also abound in Vietnam's rivers and canals.

The fishing industry was severely depleted after the Vietnam war, when many fishermen (often overseas Chinese) fled the country. The government has increased marine production into a major export industry. In 2000, ocean production was estimated at 1,441,590 tons, and inland production was estimated at 161,000 tons. Exports of fish products were valued at \$1,480 million in 2000. Vietnamese aquaculture primarily produces cyprinids and prawns.

## 25 FORESTRY

In 2000, forests covered 30% of the total land area of Vietnam. Important forestry products include bamboo, resins, lacquer, quinine, turpentine, and pitch. Depletion of forests, however, has been serious, not only through US defoliation campaigns in the south during the war, but also because of the slash-and-burn techniques used by nomadic tribal groups in mountainous areas.

According to Western scientists who have visited the SRV in recent years, the damaged areas are recovering faster than anticipated, although reforestation has been slow and some regions are faced with sterility and erosion. Official policy currently emphasizes the replacement of natural forests with export crops such as cinnamon, aniseed, rubber, coffee, and bamboo. Roundwood production was estimated at 31,242,000 cu m (1.1 billion million cu ft) in 2000, with 85% used as fuel wood.

## 26 MINING

Vietnam had a wide variety of important mineral resources, but the mining sector was relatively small and undeveloped. The principal reserves, located mainly in the north, were antimony, bauxite, carbonate rocks, chrome, clays, anthracite coal, copper, natural gas, gemstones, gold, graphite, iron ore, lead, manganese, mica, nickel, crude petroleum, phosphate rock (apatite), pyrophyllite, rare earths, silica sand, tin, titanium, tungsten, zinc, and zirconium. Coal dominated the mining sector, and, along with carbonate rocks, crude petroleum, and phosphate rocks, was produced in large quantity. Iron reserves were estimated at 520 million tons, and apatite reserves, 1.7 billion tons. Bauxite mines in the Central Highlands Province (Lam Dong) were capable of producing 1.7 million tons per year of ore. Mining was Vietnam's fourth-leading industry in 2002; mining and quarrying contributed 6.6% to GDP, 91.2% of which came from oil, gas, and coal. Also among leading industries were the production of cement, chemical fertilizer, oil, coal, and steel; crude oil was its top export commodity. Vietnam's movement toward a free market has resulted in increased international trade.

Production outputs in 2001 included chromium ore (gross weight), 60,000 tons, up from 51,000 in 1997; ilmenite, 145,000 tons, up from 109,000 in 2000 and 50,000 in 1997 (90% was exported, mostly to Japan, and resources totaled 15 million tons of ore); zinc, 36,000 tons, up from 18,000 in 1999; tin, 3,500 tons, down from 4,800 in 1997; gold, 2,000 kg, up from 1,000 in 1997; lime, 1.03 million tons; and silica sand, 62 million tons, up from 20 million tons in 1997. Vietnam also produced barite, bauxite, bentonite, hydraulic cement, chromium, kaolin clay, refractory clay, construction aggregates, copper, fluor spar, gemstones, granite, graphite, ilmenite, iron ore, lead, lime, marble, nitrogen, phosphate rock, pyrite, pyrophyllite, rare earths, salt, silica sand, sulfur, building stone, and zirconium. Most chromite, ilmenite, and zirconium, and some granite, kaolin, salt, and silica sand, was exported. No tungsten was produced in 1998–2001. Asian Mineral Resources started two diamond drilling programs at nickel deposits. The mining industry comprised state-owned companies, several state-and-foreign mining and mineral-processing company joint ventures, many small-scale local government-owned mining companies, local government-private mining company joint ventures, and local private miners.

## 27 ENERGY AND POWER

Lack of energy is one of Vietnam's major obstacles to economic development. While coal output is substantial, most of it has been reserved for export. Until the late 1970s, the nation had no proved oil reserves, and hydroelectric power, while showing considerable potential, was poorly developed. Since the end of the war, the government has implemented a number of major projects

to provide Vietnam with sufficient energy resources. Several hydroelectric power stations are currently under construction, and some are already in operation. In 2000, net electricity generation was 25.7 billion kWh, of which 40.7% came from fossil fuels and 59.3% from hydropower. In the same year, consumption of electricity totaled 24 billion kWh. Total installed capacity at the beginning of 2001 was 4.9 million kW.

In February 1975, during the time when the country was still divided into two separate nations (North Vietnam and South Vietnam) the Mobil Oil Company, a US firm, struck oil off the southern coast, producing an initial outflow of 2,400 barrels per day. By mid-April, however, US oil firms—which had invested some \$100 million in oil exploration in South Vietnam—had left the country. In the mid-1970s, offshore oil was also discovered by Soviet geologists working the Gulf of Tonkin. In the late 1970s, Western firms abandoned their explorations because of unpromising results, but the USSR continued its efforts and by late 1984 had begun to achieve promising results. In September 1992, Vietnam demanded that China immediately withdraw all oil exploration ships from disputed waters in the Gulf of Tonkin. In April 1994, Mobil Corporation signed a production-sharing contract to explore for oil off the southern coast of Vietnam, becoming the first American company to drill in Vietnamese waters since 1975.

As of 2000, about 30 foreign companies had been awarded contracts to operate in the waters off the southeastern coast. Vietnam estimated that it would need about \$5 billion in foreign investment in its oil sector during 1996–2000 in order to fully develop its petroleum resources. Proven oil reserves as of 1 January 2002 totaled 600 million barrels; production in 2000 amounted to 288,000 barrels per day. In 1999, exports of petroleum accounted for about \$2 billion, or 22% of total exports. Natural gas is believed to exist throughout much of northern Vietnam; proved reserves in 2001 were 193 billion cu m (6.8 trillion cu ft). Production was 999.3 million cu m (35.2 billion cu ft) in 1999.

Control over the Spratly Islands remains a contentious issue between Vietnam, China, Taiwan, the Philippines, Brunei, and Malaysia. The reefs, many of which are partially submerged, lie atop an oil field containing an estimated 1–7 billion barrels of oil.

## 28 INDUSTRY

Most heavy and medium industry is concentrated in the north, including the state-owned coal, tin, chrome, and other mining enterprises; an engineering works at Hanoi; power stations; and modern tobacco, tea, and canning factories. The industrial sector in the south is characterized by light industry and consumer goods industry, including pharmaceuticals, textiles, and food processing, although there are some large utilities and cement works. Much of the industrial sector in the north was badly damaged by US bombing raids during the war. In the south, the private sector was permitted to continue in operation after 1975, but all industry and commerce above the family level was nationalized in March 1978. The results were disastrous, and the regime now permits the existence of a small private sector, mainly in the area of consumer goods and other light industry. The results have been generally favorable; industrial production in the 1980s increased at an average annual rate of 9.5%. During the 1990s, industrial production grew by about 12% per year. Industry accounted for 38% of GDP in 2001, up from 28% in 1995. Industrial gross output increased by 14.2% in 2001. The private sector grew 20.3% and the public sector grew 15.3%, with the foreign-invested sector expanding slightly below average at 12.1%. The foreign-invested sector constitutes about 35% of industrial production. Leading industrial sectors are food processing, garments, shoes, machine building, mining, cement, chemical fertilizers, glass, tires, oil, coal, steel, and paper.



Food processing and packaging accounts for 40% of total export turnover. The average annual growth rate has been about 11%.

Export turnover in the textiles and garment industry was \$2.1 billion in 2001 and expected to reach \$2.5 billion in 2002. VINATEX (Vietnam National Textiles and Garment Corporation), the largest Vietnamese corporation in the sector, plans to invest \$900 million in the period 2001 to 2005, made up of \$700 million in the textiles sector and \$200 million in material and accessories sectors, for equipment upgrades.

The leather and footwear sector earned about \$1.55 billion in 2001 and an estimated \$1.9 billion in 2002. Vietnam is the eighth-largest exporter of leather and footwear.

Vietnam's rubber sector has been growing at about 15% a year with an output of 300,000 tons of dried latex. Plans are to invest about \$100 million in the period 2001 to 2010 in building/expanding 11 latex plants. Construction has been one of the driving forces of economy, growing at 15% a year. The construction sector consists of about 3,500 companies, including 270 foreign invested enterprises worth more than \$3.5.

Vietnam has a large-scale wood processing industry with a nation-wide network of 760 state-managed wood processing units. There are also over 200 local enterprises, 53 joint ventures and close to 1200 small scale production units. In 2001 the market for metal-working machinery and equipment was \$45 million of which 90% was imported.

The state-dominated industrial sector, which accounts for about 45% of the country's GDP, is still marked by inefficiency and low productivity and has retarded the growth of the private sector. This is due to the low level of development, characterized by obsolete plants and machinery, shortages of capital, raw materials, energy and transport, and a command-style economic system. Vietnam's assets include low wages, good skill levels, and a motivated work force.

The government owns an estimated 6,000 state-owned enterprises (SOEs): the majority of non-agricultural enterprises. Most of these SOEs reflect the inefficiencies of parastatals, including debt, obsolete equipment and practices, and poor labor. In 1997, the government organized 2,000 SOEs into 88 conglomerates, accounting for 80% of the state sector and further monopolizing the industrial sector. Foreign investment, while welcome, is hard pressed to find opportunities outside of the Vietnam government's reach. In February 2003, the first auction of a state-owned enterprise (SOE) took place, which resulted in the sale of the Hai Phong Agricultural Mechanical Engineering Company for \$300,000 to a private Vietnamese company. The auction was financed by the Australian government.

## 2<sup>9</sup> SCIENCE AND TECHNOLOGY

Science and technology have been one of the key weak spots in the Vietnamese economy and were targeted for significant growth during the second five-year plan (1976–80). Vietnam's leading learned societies are the Union of Scientific and Technical Associations (founded in 1983) and the General Association of Medicine (founded in 1955), both in Hanoi. The State Commission for Science and Technology supervises research at the universities and institutes attached to the Ministry of Higher Education; the Institute of Science organizes research at other institutions. All research institutes are attached to government ministries.

Courses in basic and applied sciences are offered at Cantho University (founded in 1966), the Hanoi University of Technology (founded in 1956), the University of Hanoi (re-founded 1956), the University of Ho Chi Minh City (founded in 1977), Ho Chi Minh City Pedagogical University of Technology (founded in 1962), and various colleges. In 1996, the Hue

College of Sciences (formerly the University of Hue) had 10 departments and a large library.

In 1985, total expenditures on research and development amounted to 498 million dong; 20,000 scientists and engineers were engaged in research and development.

## 3<sup>0</sup> DOMESTIC TRADE

Since 1979, the government has permitted the existence of a private commercial sector, mainly in southern cities as Ho Chi Minh City and Da Nang. Most private businesses are small shops and restaurants. In 1991, private enterprise and company laws were adopted by the National Assembly. It is estimated that private businesses account for 70% of domestic trade. Consumer items, durable, and non-durable goods, are available in greater abundance.

Wholesalers in Vietnam consist of state-owned trading companies and private local wholesalers. Warehouses often have minimal facilities and equipment. The retail sector in Vietnam is undergoing rapid transformation, as new sales outlets and merchandising techniques have emerged. In the major urban areas, several Western-style mini-markets and privately-owned convenience stores have opened. Showrooms and service centers for electronics, appliances, and industrial goods offer wholesale and retail sales. In September 1996, the Saigon Superbowl opened in Ho Chi Minh City as Vietnam's first entertainment and retail center. Outside of the largest cities, retail outlets consist of family-operated market stalls or small street-front shops. There is still a strong "gray market" of smuggled goods. A value-added tax applies to most goods and services. Advertising appears in many forms. The government has restricted the use of foreign imagery in outdoor advertising by placing limitations on foreign language, landscapes, and models.

Business hours for government offices are usually Monday through Saturday between 8 AM and 5 PM, with a midday break sometime between 12:00 AM and 1:00 PM. Commercial offices are open from 8 AM to 5 PM; banks are open until 3 or 4 PM weekdays and until 11:30 AM on Saturdays. Shops and restaurants are open into the evenings and on Sundays.

## 3<sup>1</sup> FOREIGN TRADE

Beginning in 1980, emphasis was placed on the development of potential export commodities such as cash crops, marine products, and handicrafts, while imports were severely limited. To promote trade expansion with Japan, Singapore, and Hong Kong, several export-import firms were set up in Ho Chi Minh City under loose official supervision. The results were favorable but the experiment aroused distrust among communist party leaders, and the freewheeling enterprises were integrated into a single firm strictly supervised by the government.

The economic reforms of the late-1980s, including currency devaluation, adoption of a flexible exchange rate system, and lifting restrictions on foreign trade, contributed to the rapid growth in exports in the early 1990s. The US lifting of economic sanctions in 1994 pushed the volume of foreign trade even further upwards. Investments in Vietnam are contributing to the development and expansion of tourism. Vietnam joined the ASEAN Free Trade Area (AFTA) in 1995, committing itself to tariff reductions among member nations. Foreign trade in Vietnam, though, is still mostly restricted to a couple of state-owned agencies. However, in 1999, the economy recorded its smallest trade deficit in recent memory as exports climbed 23% while imports increased only 2.1%.

Import commodities include petroleum and steel products, motor vehicles and tractors, tires, foodstuffs, raw cotton, textiles, sugar, and grain. The most important export commodities for Vietnam are crude petroleum (21%), footwear (14%), and apparel (12%). Other exports include rice (10.2%), shellfish

(8.2%), and coffee (5.9%). Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Japan	1,786	1,618	168
China (inc. Hong Kong)	982	1,178	-196
Singapore	876	1,879	-1,003
Australia	815	216	599
Germany	654	269	385
United States	504	323	181
Indonesia	420	287	133
France	355	309	46
Korea	320	1,486	-1,166
Thailand	313	562	-249

### 32 BALANCE OF PAYMENTS

Foreign investment is constricted by red tape and infrastructural problems. A traditional merchandise trade deficit was partially offset by an inflow of foreign money. This inflow, however, made the Vietnamese currency overvalued (some argue by as much as 20–30%) and was seen to be hurting exports by driving up the cost of goods. The 1998 financial crisis reflected the culmination of this overvaluation, which was remedied by 1999 with low import levels, and smaller investment figures. The current account deficit for 2003/04 was expected to widen, due to stronger domestic demand and increased imports of important production inputs. Vietnam is the world's second-largest rice exporter after Thailand. In recent years, Vietnam has received an increase in foreign loans, aid, and direct investment. Vietnam's foreign debt stood at \$13.2 billion in 2000.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Vietnam's exports was \$15.1 billion while imports totaled \$15.3 billion resulting in a trade deficit of \$200 million.

The International Monetary Fund (IMF) reports that in 2000 Vietnam had exports of goods totaling \$14.5 billion and imports totaling \$14.1 billion. The services credit totaled \$2.7 billion and debit \$3.25 billion. The following table summarizes Vietnam's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>960</b>
Balance on goods	375
Balance on services	-550
Balance on income	-597
Current transfers	1,732
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>-316</b>
Direct investment abroad	...
Direct investment in Vietnam	1,298
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	-2,089
Other investment liabilities	475
<b>Net Errors and Omissions</b>	<b>-534</b>
<b>Reserves and Related Items</b>	<b>-110</b>

### 33 BANKING AND SECURITIES

The State Bank of Vietnam, created in 1951, was the central bank of issue for the DRV, with numerous branches throughout the territory and an extensive agricultural and industrial loan service; in 1976, it became the central bank of the SRV. Foreign exchange is regulated by the Foreign Trade Bank. The Bank for Agricultural Development provides loans to the agricultural and fishing sectors.

Financial chaos became a constant threat during the final years of the RVN. The National Bank of Vietnam (NBV), established in 1954, was the sole authority for issuing notes, controlling credit,

and supervising the formation of new banks and changes in banking establishments.

In early May 1975, shortly after the fall of Saigon, the new revolutionary regime announced the temporary closure of all banks in the south, although the RVN piaster continued to circulate as the only legal tender. Two months later, the National Bank of Vietnam was reopened under new management. Stringent regulations were announced to control inflation and limit currency accumulation. All private Vietnamese and foreign banks were closed in 1976. By then, the Hanoi regime had ordered a complete withdrawal from circulation of the RVN currency and its replacement by the dong, in use in the north.

Since the banking reorganization of July 1988, but particularly since 1992, Vietnam has moved to a diversified system in which state-owned joint-stock, joint-venture, and foreign banks provide services to a broader customer base. The first foreign representative bank office arrived in 1989. In 1992, foreign banks were granted permission to open full commercial branches. The government set up the Bank for the Poor in 1995, and gave it the task of lending to "the poor living in underprivileged areas." As of December 1998, in addition to four state-owned commercial banks, there were numerous joint-stock banks, foreign bank branches, joint-venture banks and foreign banks with representative offices. Foreign banks only recognize three of the joint-stock banks as viable partners, however.

The state banks still dominate the system, state enterprises are still the main borrowers, and their lending is still predominantly short-term because of the skewed interest rate structure. These banks are the Bank of Foreign Trade (Vietcombank), the Vietnam Industrial and Commercial Bank (Incombank), the Vietnam Bank for Agriculture and Rural Development (BARD), and the Vietnam Bank for Investment and Development (BIDV).

Two banking decrees, issued in October 1990 and governing respectively commercial banks, credit cooperatives and other financial institutions, and the State Bank, aimed to regulate the financial system more strictly. Credit cooperatives had to be licensed by the State Bank rather than by local People's Committees. The first decree also gave the state commercial banks greater autonomy, and permitted them to compete with each other and to seek capital from sources other than the state. The second decree introduced new instruments through which the State Bank could control the banking sector, including open-market operations and varying reserve requirements and discount rates.

Despite these changes, the banking system is in poor health. Public confidence in the system remains low. Only 4% of all potential holders of accounts have actually opened one. There were only 10,000 bank accounts in the entire country of 80 million people in 2002. As of 2002, the Vietnam banking system had gained little international confidence, although international audit standards are beginning to be implemented. Loan fraud investigations and low loan liquidity have brought bank finances under scrutiny. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$17.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.8%.

In July of 2000, the Vietnam Stock Exchange opened its doors for the first time.

### 34 INSURANCE

Before May 1975, life and property insurance coverage was available in the RVN from three small Vietnamese insurance companies and through local representatives of about 70 French, UK, and US insurance firms. By the end of 1975, all private insurance facilities had ceased to operate, and the Vietnam

Insurance Co., established in the DRV in 1965, had become the nation's lone insurance firm. In 1981, the main types of insurance offered were motor vehicle, personal accident, hull and cargo, offshore exploration, aviation, and third-party risk. In Vietnam, third-party automobile insurance and employers' liability are compulsory.

In 1997, other insurance companies operating in Vietnam were Hochiminh Insurance Co., Nha Rong Joint-Stock Insurance Co., Petrolimex Joint-Stock Insurance Co., Petrovietnam Insurance Co. (PVIC), Vietnam National Reinsurance Co., and the Yasuda Fire and Marine Insurance Co. As of 2002, foreign insurers were allowed in Vietnam, thus opening up the market.

### 35 PUBLIC FINANCE

The main sources of monetary revenue are income taxes, the sale of SOE's, and customs taxes. Annual deficits are financed by foreign aid. Monetary policy reforms enacted since 1988 helped end the hyperinflationary spiral of the 1980s. Aid from the former Soviet Union, formerly Vietnam's most prominent donor, was greatly reduced after the dissolution of the USSR in 1991. Foreign investment peaked in 1995 after the US declared an end to economic sanctions, but quickly receded thereafter. Implementation of a VAT in 2000 was expected to increase revenue.

The US Central Intelligence Agency (CIA) estimates that in 1999 Vietnam's central government took in revenues of approximately \$5.3 billion and had expenditures of \$5.6 billion including capital expenditures of \$1.8 billion. Overall, the government registered a deficit of approximately \$300 million. External debt totaled \$13.2 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%	5,300
Tax revenue	79.0%	4,185
Non-tax revenue	15.1%	800
Capital revenue	0.8%	43
Grants	5.1%	273
EXPENDITURES	100.0%	5,600
General public services	7.0%	391
Education	13.7%	766
Health	3.6%	200
Social security	10.5%	585
Economic affairs and services	7.0%	392
Other expenditures	54.7%	3,065
Interest payments	3.6%	201

### 36 TAXATION

Individual income is subject to a progressive tax ranging from 0% to 50%. For corporations with not foreign-owned capital, the top rate is 32%. For companies with foreign-owned capital the top rate is 25%. Indirect taxes include a turnover tax ranging up to 30% of gross receipts; a special sales tax on tobacco products, spirits, beer, and other items ranging from 15–100%; royalty taxes from 1–20% in most cases, and customs duties. A value-added tax (VAT) was introduced in 2000 with a rate of 10%.

### 37 CUSTOMS AND DUTIES

All imports must be authorized by one of the state trading corporations. Customs duty is generally charged on imports and exports, with many exemptions and duty reductions available (including imports related to an aid program and goods to be used for security, national defense, scientific and educational training, or research purposes). Tariff rates are divided into three

categories according to the import source country's trade relationship with Vietnam: ordinary rates apply to goods imported from countries that have not exchanged normal trade relations (NTR) agreements with Vietnam; preferential rates apply to goods from countries that have exchanged NTRs with Vietnam; and special preferential rates apply to goods from countries that have made special trade arrangements with Vietnam. Ordinary tariff rates are about 50% higher than preferential rates. Special preferential rates vary by country. There are also special consumption taxes (mostly on luxury goods) of up to 100%, a value-added tax (VAT) of 0–20%, and import quotas.

In 1994, the United States lifted its trade embargo on Vietnam and in 1995 the two countries established formal relations. Vietnam is a member of ASEAN and its free trade area (AFTA).

### 38 FOREIGN INVESTMENT

France was the dominant foreign investor in Indochina before World War II. Resident Chinese, however, played a major role in rice milling, retailing, and other activities (and continued to do so in the south through the early 1970s). Following the 1954 partition agreement, the French economic position in the DRV was completely liquidated, and the participation of private foreign investors in the DRV economy was prohibited. The RVN government encouraged the introduction of private capital. In March 1957, a presidential declaration provided guarantees against nationalization and expropriation without due compensation, temporary exemption from various taxes, and remittance of profits within existing regulations. Despite these efforts, because of wartime conditions, relatively little new private foreign investment was attracted to the country, apart from a few ventures by US and Japanese interests. In 1977, the SRV issued a new investment code in an effort to attract private foreign capital to help develop the country. However, because of stringent regulations and a climate of government suspicion of private enterprise, the 1977 code attracted little enthusiasm among potential investors. Only the USSR and France made sizable investments, although in recent years Japan has laid the foundation for future investment by bank loans. Beginning in 1984, the regime began to encourage the formation of joint ventures and announced that preparations were under way for a new foreign investment code.

In 1987 the National Assembly passed a liberalized investment law seeking to improve the overall investment climate and emphasize the development of export industries and services. The Vietnamese investment laws were much more liberal than those of other countries in Southeast Asia. The code permitted wholly owned foreign enterprises in Vietnam, levied low taxes on profits, allowed full repatriation of profits after taxes, and guaranteed foreign enterprises against government appropriation. The law also encouraged oil exploration. Factors hindering performance of foreign investors are bureaucracy, lack of management expertise, smuggling and corruption, and an underlying distrust and uncertainty on the part of officialdom.

In early 1994 the government announced three proposals intended to improve the investment environment and increase foreign trade: expedited decisions on small investment projects; the elimination of the requirement for import-export licenses for many commodities; and reduced list of industries that would be off limits to foreign investors. Foreign investments were allowed in insurance companies and brokerages, and reinsurance between companies. Under amendments to the Foreign Investment Law in 1996 more authority over investment licensing was given to local governments.

Total foreign direct investment (FDI) approvals from 1988 to June 2002 amounted to \$38.58 billion, but the total disbursed was a little over \$20 billion, about 52% of approved FDI. Since the 1994 reduction of restrictions, however, actual inflows of FDI

have averaged about 70% of the approvals. After the Asian financial crisis, the level of inflow decreased by about \$900 million a year. From 1994 to 1997, inflow average, and from 1998 to 2000, the annual average inflow was \$1.7 billion. The main cause of the decline is reduced investments from other Southeast Asian countries. As of 2003, it is estimated that FDI projects produce 13% of the country's GDP, including 36% of industrial production. As of 1999, Singapore was the largest foreign investor with \$5.9 billion of total investments approved by the Vietnam government between 1988 and 1999 (only \$2 billion actualized). Other major investors included Taiwan, Hong Kong, Japan, South Korea, France, the British Virgin Islands, Russia, the United States, and the United Kingdom. The Vietnamese government controls both upstream and downstream oil and gas industries, but since 1998 foreign investment has been permitted. In October 2001, the consortium that included Conoco, the Korean National Oil Company (KNOC), SK Corporation of South Korea, and Geopetrol of France made a major find of oil in the Cuu Long Basin. In November 2002, the Japan Vietnam Petroleum Company (JVPC) made its first sizeable discoveries. JVPC is the operator in the joint venture, and holds a 46.5% share.

### 39 ECONOMIC DEVELOPMENT

With the defeat of the RVN forces in April 1975, Vietnam faced the task of restoring its infrastructure, damaged by the war, while working toward the goal of a technologically advanced society. Long-range planning centered on the second five-year plan (1976–80), which called for major emphasis on heavy industry and rapid agricultural growth. Due to factors including unfavorable weather, decreased foreign aid, and high military expenditures—combined with managerial inefficiency—the plan was a disaster. Industrial production grew by only 0.6% and agriculture by 1.9%. The third five-year plan (1981–85) was more modest in its objectives. Emphasis was placed on agricultural development and the promotion of consumer goods, with industrial development in the background. Socialist transformation remained a high priority, although a less rapid rate of change was expected than during the previous five years. Although the goals of the new plan were more realistic than those set for its predecessor, its success was limited. Growth figures in industry (9.5%) and agriculture (4.9%) improved significantly over the previous five years. Production remained spotty in key areas, however, and problems of mismanagement—primarily by the state sector—proliferated.

The fourth five-year plan (1986–90) continued the previous plan's emphasis on agricultural growth and expansion of exports and light industry. Efforts to promote Socialist transformation were to continue, but at a gradual pace and "by appropriate forms." Development aid continued to come primarily from the former USSR and other CMEA countries. In 1978, the SRV became fully integrated into the CMEA planning and development structure, and its five-year plans were coordinated with those of its CMEA partners. Planned Soviet outlays for the 1986–90 period totaled some \$11–13 billion. This aid and trade waned with the decline of the USSR, with the full cutoff occurring in 1991. The SRV's new economic emphasis, *doi moi* (renovation) was instituted by Nguyen Van Linh following the sixth national party congress (1986). His plan included policy and structural reforms for a market-based economic system: price decontrol (liberalized prices), currency devaluation, private sector expansion through decollectivization of agriculture (food production), legal recognition of private business, new foreign investment laws, autonomy of state enterprises, business accounting methods, devolution of government decision-making in industry to enterprise level, and limiting government participation to macroeconomic issues. Implementation of these policies was achieved with varied success.

Inflation policy and agricultural reform resulted in immediate increases in rice production. Vietnam changed from a net importer of rice to the third major rice exporter after Thailand and the United States.

Agriculture remains the most important economic sector, accounting for about one third of GDP and about 63% of the labor force. There were 12,000 government-owned companies employing 30% of Vietnam's labor force that held 75% of the country's assets, and monopolized 86% of bank credit in 1992. The privatization program met with resistance from conservative politicians, the companies, and from foreign investors. Conservatives feared that privatization undermined the economic basis of socialism, and foreign investors were wary of poor investments with meager legal underpinnings. Opposition from managers who would lose a "free hand," and employees whose jobs might be replaced by new equipment also arose. In 1994 the director and deputy director of the textile company that was the flagship for this privatization program were dismissed for alleged corruption.

US president Bill Clinton's lifting of the 30-year-old trade embargo in 1994 opened the way for waiting American companies to do business in Vietnam. International assistance during the mid-1990s was from the World Bank for education and agricultural reforms, the Japan Overseas Economic Cooperation Fund for infrastructure programs, the United Kingdom for soft loans, technical training and refugee resettlement, and from the Asian Development Bank. A continuation of reforms promoting foreign investment and minimizing the state's role in the economy moved slowly in the late 1990s due to political corruption and inefficiencies.

The Asian financial crisis negatively affected investor confidence in the region, severely reducing Vietnam's main focus of economic development as of late. A complete overhaul of the financial regulatory system is still necessary in order to stimulate the economy. Vietnam's increasing integration in regional and international economic organization should impel more competitive production methods. Until 2006, as part of its commitment in joining the Asian Free Trade Area (AFTA), it will have to reduce tariff by 55 to 46%. At the end of 2001, Vietnam concluded a bilateral trade agreement with the United States, and it has now started toward the goal of accession to the World Trade Organization by 2004.

### 40 SOCIAL DEVELOPMENT

A social security plan provides old age, disability and survivorship benefits, as well as worker's injury and medical insurance. Coverage is compulsory for public employees and employees of companies with more than 10 workers. Pensions are funded by 5% of employee wages, 15% of employer payroll, and government contributions. Maternity benefits are payable at 100% of wages for 120 days.

Women have full legal rights under law, but are subject to various forms of social discrimination. Few women are found in senior management or high level government positions, but business and the public sector nevertheless employ many women, and they are an important part of the economy. Women also generally receive lower wages than their male counterparts. Domestic violence against women is common.

The human rights record is poor, and there are continuing reports of arbitrary detention and the mistreatment of detainees during interrogation. However, restrictions on free speech and religion have been lessened slightly in recent years, as have restrictions on travel. Human rights organizations are not permitted to operate in Vietnam.

### 41 HEALTH

Wars in Vietnam since 1946 have undermined much of the progress made by the DRV, RVN, and SRV in the health field.

Damage to urban hospitals in the north was especially severe. A 1976 World Health Organization report indicated the dimensions of that destruction: 24 research institutes and specialized hospitals, 28 provincial hospitals, 94 district hospitals, and 533 community health centers; all destroyed mainly as the result of US bombing. Three decades of intermittent war has also had a devastating effect on health conditions in the south.

At the war's end in 1975, many endemic diseases were observed to be on the increase, in alarming contrast with trends among other affected countries in Southeast Asia. The World Health Organization (WHO) reported in 1976 that malaria had been both widespread and increasing in the south in 1975. During 1965–74, 5,000 cases of bubonic plague were occurring annually, with a mortality rate of 5%. Saigon was said to have had a tuberculosis rate two to three times that in neighboring countries, while leprosy (involving an estimated 80,000–160,000 cases) was increasing.

Since reunification in 1975, some progress in health care has been made, and the incidence of many contagious diseases has been reduced. However, the incidence of tuberculosis, which had been largely controlled (99 cases per 100,000 people reported in 1996), rose again to 189 cases per 100,000 people as of 1999. Commonly reported diseases in Vietnam were diarrheal disease (22,422 deaths in 1995); malaria (136,069 cases in 1993); and tuberculosis (35,813 in 1994). Venereal and paraveneal diseases were said to have afflicted 1 million persons in the south (about 5% of the total population) and, WHO claimed, 80% of RVN soldiers. Opiate addiction affected about 500,000 persons. As of 1999, the number of people living with HIV/AIDS was estimated at 100,000 and deaths from AIDS that year were estimated at 2,500. HIV prevalence was 0.24 per 100 adults. Tobacco consumption has increased from 1.0 kg (2.2 lbs) a year per adult in 1984–86 to 1.1 kg (2.4 lbs) in 1995.

During the early 1980s, foreign visitors routinely reported observing severe cases of malnutrition and shortages of medical equipment and supplies. While conditions have generally improved as agricultural production has increased, most Vietnamese continue to live at the minimum level of subsistence. In February of 1996, Vietnam was considering fortification of foods with iron and vitamin A. In 1995, the Vietnamese government issued the National Plan of Action for Nutrition (1995–2000), which aimed to eliminate food insecurity, reduce malnutrition, and reduce micronutrient deficiencies. About 39% of all children under 5 were classified as malnourished in 2000.

Vietnam reported life expectancy in 2000 to be 69 years and infant mortality to be 27 per 1,000 live births. Maternal mortality was 160 per 100,000 live births in 1998. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 20.9 and 6.1 per 1,000 people. Immunization rates for children up to one year old in 1997 were tuberculosis, 96%; diphtheria, pertussis, and tetanus, 95%; polio, 95%; and measles, 96%.

Family planning services were provided to 2,157,000 people in 1992. An estimated 75% of married women (ages 15 to 49) were using contraception in 2000. Abortion is available on request. Vietnam's fertility rate in 2000 was 2.2, down nearly 2% from the previous 5-year period.

In 1991, the country had 275,560 physicians, 58,912 nurses, and 14,813 midwives. In 1992, there was a nurse to doctor ratio of 4.9. About 97% of the population had access to health care services in 1993. In 2000, 56% of the population had access to safe drinking water and 73% had adequate sanitation. As of 1999, there were an estimated 0.5 physicians and 1.7 hospital beds per 1,000 people. As of 1999 total health care expenditure was estimated at 4.8% of GDP.

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

Housing is a serious problem in the SRV, particularly in urban areas of the north where war damage has caused overcrowding and lack of resources has hampered efforts to resolve the problem. By 1986, housing had become a critical problem in Hanoi, particularly in the central sections of the city, where per capita living space was reduced to four sq m. Large flats are gradually being erected in the suburbs to ease the problem. In the meantime, many families live in temporary quarters built directly on the sidewalk or attached to other buildings. Housing is less a problem in the countryside, where many farm families have begun to take advantage of a rising standard of living to build new houses of brick and stone. Similarly, in the south, housing is available to meet the requirements of the population because building construction had continued at a relatively high level during the war years. In 1989, the majority of housing units were semi-permanent (structures with brick walls and tile roofs lasting about 20 years).

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

In the mid-1970s, literacy in the south was estimated at about 65%, while in the north a rate of 85% was claimed in 1975. By the year 2000, adult illiteracy rates for the reunified country were estimated at 6.7% (males, 4.3%; females, 9.0%). After 1975, the educational system in the south was restructured to conform to the Socialist guidelines that had been used in the DRV. The 12-year school cycle was reduced to 10 years, and the more than 20,000 teachers in the south were among those subjected to "reeducation." By 1976, some 1,400 tons of textbooks printed in the DRV had been shipped to the south, and the books used previously under the RVN were destroyed. In addition, more than 1,000 formerly private schools in the south were brought under state control. Today, education is free at all levels, and five years of primary education is compulsory. As of 1999, public expenditure on education was estimated at 2.8% of GDP.

In the mid-1980s, the educational system was rapidly expanding to cope with the nation's rising population. In 1998, primary schools had 324,431 teachers and 10,431,337 students, with a student-to-teacher ratio of 32 to one. In the same year, secondary schools had 226,491 teachers and 6,642,350 students. As of 1999, 96% of primary-school-age children were enrolled in school, while 61% of those eligible attended secondary school. There are 90 colleges and three universities in the SRV. The major university is in Hanoi. In 1997, universities and equivalent institutions had 23,522 teachers and enrolled 509,300 students.

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

The École Française d'Extrême-Orient maintained an extensive research library in Hanoi, which was transferred intact to the DRV. Now the National Library, it has about one million volumes; the bulk of the present collection has been added since 1954 and includes a substantial number of Russian titles. The General Scientific Library in Ho Chi Minh City (formerly the National Library) maintains a collection of over 800,000 volumes. Many books in the south's library system were burned following the reunification, especially in the larger libraries at Ho Chi Minh City, Huế, and Da Nang. According to official sources, the number of libraries in the country has increased since 1975. Vietnam National University at Hanoi Library holds 1.4 million volumes.

The collections of the Musée Louis-Finot, an archaeological and cultural museum established by the French in Hanoi, were transferred intact to the DRV. These collections, now part of the Historical Museum, contain artifacts and related material from archaeological discoveries in Thanh Hoa and Yen Bay, including a 2,500-year-old burial boat and an excellent array of bronze implements. Hanoi's National Art Gallery includes a folk-art

collection and Vietnamese Bronze Age artifacts. Notable also is the Museum of the Revolution, grouping memorabilia of Vietnam's struggle for independence from the French since the early 1900s. The Army Museum, housed in the Hanoi Citadel, contains a collection of weapons and documents concerning the Indochina war. The Vietnamese Fine Arts Museum (1966) houses exhibits on the decorative and applied arts, and folk and modern art. The architecture of religious edifices and former Vietnamese imperial structures reflect the country's cultural heritage. The Ho Chi Minh City Museum, founded in 1977, has a section devoted to the revolution and another to ancient arts. The Ho Chi Minh Museum, also founded in 1977, studies his life and work.

#### 45 MEDIA

Vietnam's postal, telegraph, and telephone services are under the Ministry of Communications. The country made significant progress in upgrading its telecommunications system in the 1990s: all provincial switchboards have been digitized and fiberoptic and microwave transmission systems have been extended from the major cities to the provinces. However Vietnam still lags behind its Southeast Asian neighbors. There were an estimated 2.6 million mainline telephones as of 2000, with an additional 730,155 cellular phones in use.

Hanoi has a strong central broadcasting station, the Voice of Vietnam, boosted by local relay transmitters. Since 1975, almost the entire country has been blanketed by a wired loudspeaker system. Radio programs beamed abroad include broadcasts in Chinese, English, French, Japanese, Spanish, Thai, Bahasa Indonesia, Russian, Khmer, and Lao, and there are special broadcasts to mountain tribes. Television was introduced into the RVN in 1966, and an extensive service, reaching some 80% of the population, was in operation by the early 1970s. A pilot television station was inaugurated in the DRV in 1971. Many of the major cities now have television stations, all under the guidance of the Ministry of Information, which replaced the State Committee for Radio and Television in 1987. As of 1999, there were 65 AM and 7 FM radio stations. In 1998, there were seven television stations. In 2000, Vietnam had 106 radios and 185 television sets for every 1,000 people. In 2001, there were 160,000 Internet subscribers served by about five service providers.

Most newspapers in the south were shut down by the PRG in 1975, but some papers that had been sympathetic to the NLF/DRV cause were allowed to continue publication. All press is strictly controlled by the Ministry of Culture and Information. Principal Vietnamese dailies (with their estimated 2002 circulation) are shown in the following table:

	AFFILIATION	CIRCULATION
HANOI		
<i>Nhan Dan</i>	Communist Party	200,000
<i>Quan Doi Nhan Dan</i>	Army	60,000
<i>Hanoi Moi</i>	Communist Party	35,000
HO CHI MINH CITY		
<i>Saigon Giai Phong</i>	Communist Party	100,000

The English-language *Saigon Times* was established in 1995.

#### 46 ORGANIZATIONS

The principal mass organization is the Fatherland Front, which merged in January 1977 with the National Liberation Front and with the Vietnam Alliance of National, Democratic, and Peace Forces. The Fatherland Front draws up single slates of candidates in all elections and seeks to implement the political, economic, and social policies of the Communist Party. Other organizations that form part of the Fatherland Front are the Peasant Union, with some five million members; the Ho Chi Minh Communist Youth Union, with four million members; and the Vietnamese

Women's Union, with 11.4 million members. Industrial and commercial enterprises are represented by the Chamber of Commerce of the SRV in Hanoi.

Many of the various types of organizations found in Western countries had existed in the RVN since the 1950s. Among them were the Boy Scouts and Girl Scouts, cooperatives, sports organizations, and various cultural, professional, and youth associations. Most of these bodies, however, were disbanded after 1975. There are several charitable organizations, primarily those representing aid from other countries or other major international organizations, such as the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

Vietnam possesses a number of historic and scenic areas of interest to tourists. In the north, the beauty of Ha Long Bay, with its countless grottoes and rock spits jutting vertically into the sea, is well known. Hanoi itself, with its historical monuments, its lakes and pagodas, and its extensive French colonial architecture, is extremely picturesque, but hotel facilities are both inadequate and expensive.

In 1986 and 1987, the government made plans to expand international and domestic airline service, double hotel capacity in the major cities, simplify the complicated visa restrictions, and grant shore leave passes to passengers on cruise ships stopping at Vietnamese ports. As a result of these measures, tourism grew rapidly. From 20,000 in 1986, visitor arrivals rose to 450,000 in 1992 and 1,715,637 in 1997. In 2000, 2,140,000 foreign visitors arrived in Vietnam. That year there were 66,700 hotel rooms with 120,800 bed-places and an occupancy rate of 50%. All visitors need visas and must register with the government within 48 hours of arrival.

According to 2001 US government estimates, the cost of staying in Ho Chi Minh City was \$154 per day. Travel costs in Hanoi were estimated at \$155 per day.

#### 48 FAMOUS VIETNAMESE

Important figures in Vietnamese history include the sisters Trung Trac and Trung Nhi, national heroines who led a revolt (AD 40–43) against China when that nation was imperial master of Tonkin and North Annam; Ngo Quyen, who regained Vietnamese independence from China in 938; Tran Hung Dao, who defeated the forces of Kublai Khan in 1288; Emperor Le Loi, national hero and brilliant administrator, in whose reign the Vietnamese legal code was promulgated in 1407; Emperor Gia Long (d.1820), who reunified Vietnam in the early 19th century; and Le Van Duyet (1763–1832), a military leader who helped the emperor to unify the country.

Phan Boi Chau (1875–1940) was Vietnam's first modern nationalist and, like China's Sun Yat-sen, is claimed by Vietnamese Communists and nationalists alike as their spiritual leader. Ho Chi Minh ("The Enlightener"), born Nguyen That Thanh (1890–1969), was a man of many other pseudonyms. Ho Chi Minh was a founding member of the French Communist Party in 1920 and founded the Vietnamese Communist Party in 1930. Often referred to as "Uncle Ho," he was president of the DRV from 1945 until his death. General Vo Nguyen Giap (1912–1975), a professor of history turned strategist, organized the first anti-French guerrilla groups in 1944, led the Viet-Minh in its eight-year struggle against France, and defeated the French at Dien Bien Phu; subsequently he served as minister of defense, commander in chief of the army, and vice-premier of the DRV. Truong Chinh ("Long March," 1906–1988), the DRV's foremost Communist thinker, was secretary-general of the Vietnamese Communist Party from 1940 until 1956, when he was purged from his post for having mismanaged the land reform; exonerated shortly thereafter, he was president of the Council of State (1981–87). Pham Von Dong (b.1906), a member of the nobility, joined the Vietnamese revolutionary movement at its inception and

became minister of foreign affairs in 1954, premier of the DRV in 1955, and premier of the SRV in 1976; he resigned in 1987. Le Duan (1907–86), first secretary of the Communist Party, presided over Vietnam's reunification and the formation of the SRV. Le Duc Tho (1911–1990), a member of the Communist Party Politburo but with no post in the government, was the DRV's chief negotiator in talks that led to the 1973 Paris Peace Agreement; for his role, Le shared with US Secretary of State Henry Kissinger the 1973 Nobel Peace Prize.

Prominent political figures in the formation of the RVN included Bao Dai (Nguyen Vinh Thuy; b.France, 1913–1997), who had served as nominal emperor of Annam under the Japanese and had attempted to form a unified national government after the war, and Ngo Dinh Diem (1901–63), who served as president of the RVN from its founding on 26 October 1955 until his overthrow and death in November 1963. Nguyen Cao Ky (b.1930), an RVN air force commander, took control of the government in the coup of June 1965. General Nguyen Van Thieu (b.1923) was elected president of the RVN in the elections of September 1967 (with Ky as his vice-presidential running mate), an office he retained until the RVN's defeat in 1975. Both Thieu and Ky left the country in 1975, Thieu taking up residence in Taiwan and Ky in the United States. The new leadership in the south, following the 1975 NLF victory, was headed by Pham Hung (1912–1988), chairman of the southern wing of the Communist Party since 1967; Huynh Thanh Phat (1913–1989), the PRG premier, who later became a member of the Council of State; and Nguyen Thi Binh (b.1927), the PRG's foreign affairs minister who had headed the NLF delegation at the Paris talks and who also became a Council of State Member. Pham Hung became premier of the SRV in 1987, and Vo Chi Cong (b.1913?) became president of the Council of State. Nguyen Van Linh (b.1913) became general secretary of the Communist Party in December 1986.

The 13th-century writer Nguyen Si Co is regarded as one of the first truly Vietnamese authors; he is best known for his collection titled *Chieu Quan Cong Ho*. Other leading literary figures are two 15th-century poets, Ho Huyen Qui and Nguyen Binh Khiem; the latter's collection, *Bach Van Thi Tap*, is a classic of Vietnamese literature. Nguyen Du (1765–1820) wrote a famous novel in verse, *Kim Van Kieu*. Hoang Ngoc Phach, who wrote the romantic novel *To Tam* (1925), is credited with the introduction of Western literary standards into Vietnamese literature.

#### 49 DEPENDENCIES

Vietnam has no territories or colonies.

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# YEMEN

Republic of Yemen

*Al-Jumhuriyah al-Yamaniyah*

**CAPITAL:** Sana (San'a)

**FLAG:** The national flag is a tricolor of red, white, and black horizontal stripes.

**ANTHEM:** *Al-Watani (Peace to the Land)*.

**MONETARY UNIT:** The Yemeni riyal (YR) is a paper currency of 100 fils. There are coins of 1, 5, 10, 25, and 50 fils and notes of 1, 5, 10, 20, 50, and 100 riyals. YR1 = \$0.00546 (or \$1 = YR183.15) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is being introduced, but local measures remain in common use.

**HOLIDAYS:** Labor Day, 1 May; Day of National Unity, 22 May; National Day, 14 October; Independence Day, 30 November. Movable Muslim holidays include Laylat al-Miraj, 'Id al-Fitr, 'Id al-'Adha', Milad an-Nabi, and 1st of Muharram.

**TIME:** 3 PM = noon GMT.

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

Yemen is located in the southern part of the Arabian Peninsula. It is slightly larger than twice the size of the state of Wyoming with a total area of 527,970 sq km (203,850 sq mi). Yemen shares boundaries with Sa'udi Arabia on the N, Oman on the E, Gulf of Aden on the S, and the Red Sea on the W, and has a total land boundary length of 1,746 km (1,085 mi) plus a coastline of 1,906 km (1,184 mi).

## <sup>2</sup>TOPOGRAPHY

The topography of Yemen features a narrow coastal plain backed by flat-topped hills and rugged mountains. Dissected upland desert plains in the center of the country slope into the desert interior of the Arabian Peninsula. The highest known point is the summit of Jabal Hadhur, rising 3,760 m (12,336 ft) above the Red Sea coast. The western part of the country contains fertile soil in its highland plateaus which rise from about 1,200 to 3,000 m (4,000 to 10,000 ft). Approximately 3% of Yemen's land is arable. A system of wadis drain mountain slopes into the desert and into the Gulf of Aden.

## <sup>3</sup>CLIMATE

Extreme humidity combines with high temperatures—as high as 54°C (129°F) in the shade—to produce a stiflingly hot climate. Winds blowing northwest in summer and southwest in winter bring little rain but cause severe sandstorms. During January and February, however, the temperature averages about 20°C (68°F). The climate of the highlands is generally considered the best in Arabia. Summers are temperate and winters are cool, with some frost. Temperatures vary from 22°C (72°F) in June, the hottest month, to 14°C (57°F) in January. Rainfall in the highlands ranges from 41 cm (16 in) at Sana to 81 cm (32 in) in the monsoon area of the extreme southwest. The average year-round temperature at Sana is 18°C (64°F).

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

Vegetation is sparse along the coast, but in the highlands and wadis, it is plentiful. Acacia, date palm, and many fruit trees are

common. Many varieties of grapes are cultivated. Custard apple, euphorbia, and spurge grow in abundance. Alpine roses, balsam, basil, wild elder, and Judas tree are among the flowers and herbs. Wild mammals include the baboon, gazelle, leopard, and mountain hare. Scorpions and millipedes are everywhere, but snakes are less common. Many varieties of birds are found, including the bustard, hawk, vulture, raven, parrot, hornbill, honeysucker, and weaver finch. More than 27,000 varieties of insects and over 600 specimens of flowering plants have been collected in Yemen.

## <sup>5</sup>ENVIRONMENT

Yemen's main environmental problems have long been scarcity of water, soil erosion, and desertification. Water pollution is a problem due to contaminants from the oil industry, untreated sewage, and salinization. The nation has 4.1 cubic kilometers of renewable water resources with 92% used for farming activity and 1% for industrial purposes.

Natural forests in mountainous areas have been destroyed by agricultural clearing and livestock overgrazing. The National Environmental Council, established in 1976, disseminates information on conservation. In response to the nation's environmental needs, the government of Yemen has created laws governing the use of the country's water supply. Law Number 42 (1991) protects water and marine life.

As of 2001, 5 mammal species and 13 bird species are listed as threatened. Endangered species include the northern bald ibis, the South Arabian leopard, slender-billed curlew, and two species of turtle (green sea and hawksbill). Queen of Sheba's gazelle and the Sa'udi Gazelle have become extinct in the wild.

## <sup>6</sup>POPULATION

The population of Yemen in 2003 was estimated by the United Nations at 20,010,000, which placed it as number 51 in population among the 193 nations of the world. In that year approximately 3% of the population was over 65 years of age, with another 48% of the population under 15 years of age. There were 103 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for



2000–2005 is 3.52%, with the projected population for the year 2015 at 30,677,000. The population density in 2002 was 35 per sq km (91 per sq mi). Most of the population is concentrated in the Tihama foothills and central highlands of Yemen. Most of southern Yemen is very sparsely populated.

It was estimated by the Population Reference Bureau that 25% of the population lived in urban areas in 2001. The capital city, Sanaa, had a population of 1,231,000 in that year. Other large cities include Taiz (2,206,000), Hodiedah (1,750,000), and Aden (562,000), the chief port and former capital of the PDRY. According to the United Nations, the urban population growth rate for 2000–2005 was 4.7%.

## 7 MIGRATION

There were 1,168,199 citizens of Yemen working abroad in 1986. Most were working in Sa'udi Arabia and other Gulf states. When Yemen took Iraq's side in the war that followed its 1990 annexation of Kuwait, Sa'udi Arabia effectively expelled an estimated 800,000–1,000,000 Yemeni workers by revoking their work privileges. These workers had been sending home some \$3 billion a year in remittances.

Many people from the Wadi Hadramawt in southern Yemen have worked abroad in East Africa, India, and Indonesia for centuries. Following independence and the establishment of a leftist regime in the PDRY, more than 300,000 people fled to the north, including about 80,000 Yemenis from the YAR, and virtually all minority groups left the country. Subsequent political upheavals resulted in further emigration.

In 1992 more than 60,000 Yemenis returned from the Horn of Africa, chiefly because of turmoil in Somalia. In 1998 and 1999, Yemen experienced a significant influx of Somali asylum seekers, who fled their country for economic reasons. They were accommodated in a refugee camp in Al Ghahain, near Aden, supervised by the UN High Commissioner for Refugees (UNHCR). As of 1999 the government had expressed its desire to move the camp to a new site about 140 km from Aden and was working with UNHCR to finalize a location. By the end of 1999, UNHCR had helped 874 Somali refugees repatriate to safe areas in their homeland. In 1999, there were approximately 57,000 Somali refugees, of whom 15,000 were being assisted by UNHCR. Other refugees were mainly from Eritrea, Ethiopia, and Middle Eastern countries.

The net migration rate in 2000 was 0.1 migrants per 1,000 population, a significant decline from 9.8 per 1,000 in 1990. Worker remittances in 2000 amounted to \$1,288,000,000, or 15.1% of GDP. The government viewed the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

Since independence, the population has been almost entirely Arab. However, there are Afro-Arab concentrations in western coastal locations, South Asians in southern regions, and small European communities in major metropolitan areas. Many ethnologists contend that the purest "Arab" stock is to be found in Yemen. Classified as Joktanic Semites, the Yemenis claim descent from Himyar, great-grandson of Joktan, who, according to the book of Genesis, was descended from Shem, the son of Noah. Yemenis were prominent in the early armies of Islam and thus helped to Arabize much of the Middle East. The Tihama has been subjected to occupation and infiltration by many conquerors, and its people show significant admixtures of other racial types, including Negroid peoples. A small minority of Akhdam perform menial tasks throughout the country. The history of the Yemenite Jews predates by centuries the Islamic Hijra (AD 622). How they came to settle in the region has not been determined.

## 9 LANGUAGES

Arabic, the national language, is spoken in a variety of dialects. In vocabulary and other features there is a considerable difference between the classical language used for writing and formal speaking and the spoken dialect used for ordinary discourse. Traces of the ancient South Arabian languages spoken prior to the coming of Muhammad appear in the dialects of the more remote districts of southern Yemen. Mahri, a rare and relatively unstudied language of unknown origins, is spoken in the east. English is widely understood in the former PDRY.

## 10 RELIGIONS

The Republic of Yemen is officially a Muslim country. Almost all of the inhabitants are Sunnis of the Shaf'i school, one of the four major schools of Islamic law. They reside chiefly in the coastal plains and the southwestern part of the country. Most of those remaining are Shi'as of the Zaydi sect, who live in the highlands. This sect, originating in the 9th century, takes its name from Zayd bin 'Ali (d.740), a descendant of Muhammad, and doctrinally is very close to Sunni Islam. In addition, there is a small minority of Isma'ilis, members of another Shi'a sect.

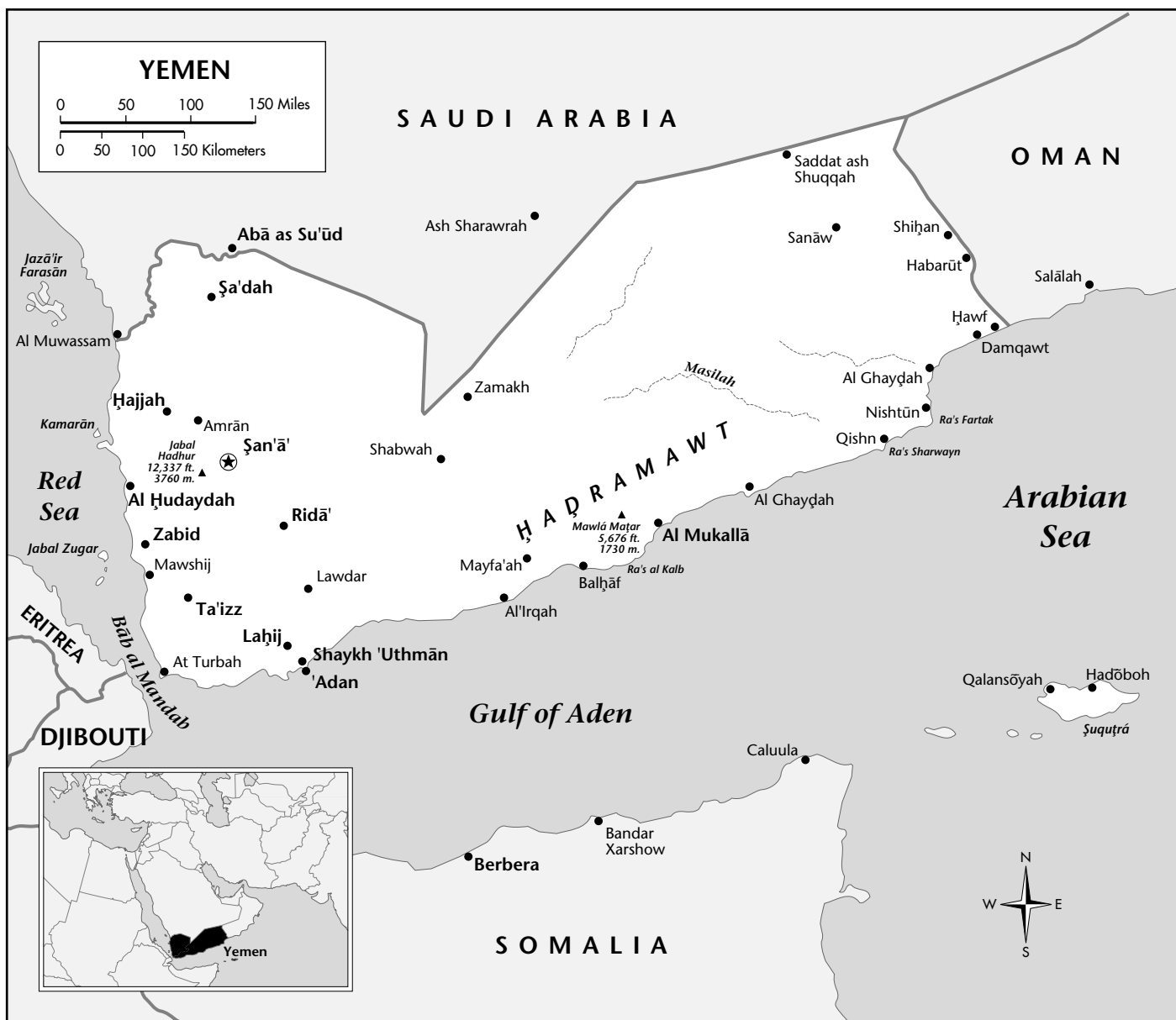
Nearly all of the country's once sizable Jewish population has emigrated. There are no legal restrictions on the few hundred who remain, although there are traditional restrictions on places of residence and choice of employment. About 500 Jews live in the villages between San'a and Saada in northern Yemen. There are also small Christian and Hindu communities. In remote areas there is still evidence of shamanism, animism, and other indigenous forms of religion.

## 11 TRANSPORTATION

Through the 1950s, Yemen's transportation system consisted of a few primitive mud tracks connecting the larger towns. Then, in 1961, technicians from China completed a 224-km (139-mi) road between San'a and Al-Hudaydah, the YAR's first asphalt highway. Seven years later, the US finished the 386-km (240-mi) highway linking Sana, Ta'izz, and Al-Mukha; the USSR completed a road from Ta'izz to Al-Hudaydah in 1969. Other paved roads extend from Sana to Ma'rib, from San'a to Sa'idah, from Ta'izz to At-Turba, from the San'a-Ta'izz highway to Al-Bayda, and from Ta'izz to Aden ('Adan). A direct link between San'a and Wadi Hadhramaut via Marib was completed in 1999. By 2002, Yemen had about 69,263 km (43,040 mi) of roadway, of which only 9,963 km (6,191 mi) were paved. Passenger cars numbered only 33,600 in 2000, and there were 83,600 commercial vehicles. There are no railways or waterways in Yemen.

Improvements to the main port of Al-Hudaydah have expanded berthing, storage, and handling facilities and increase cargo capacity to 1,750,000 tons annually. Other ports are Al-Mukha, Aden, and Salif, which have sheltered harbors and deepwater berths capable of taking 10,000-ton ships. In 1999 the Aden Container Terminal opened with further expansion plans underway. In 2002, Yemen had a merchant fleet of 4 ships, totaling 15,002 GRT.

Progress in air transportation has been rapid in recent years. In 2001 there were 49 airports, 16 with paved runways. The principal airfield, capable of handling modern jet aircraft, is Ar-Rahba International Airport, north of Sana. There are smaller international airports at Al-Hudaydah, Ta'izz, and Aden. Aden International Airport was renovated and Sana's renovation was scheduled for late 2001. Yemen Airways (Alyemda), the national airline, operates services between San'a, Ta'izz, Al-Hudaydah, and Al-Bayda and also schedules flights to Egypt, Ethiopia, Kuwait, Sa'udi Arabia, and the United Arab Emirates. The airline carried 841,400 passengers in 2001.



LOCATION 12°41' to 17°32' N; 42°32' to 53°5' E. BOUNDARY LENGTHS: Oman, 288 kilometers (179 miles); Sa'udi Arabia, 1,458 kilometers (907 miles); coastline, 1,906 kilometers (1,183 miles).

## 12 HISTORY

Classical geographers divided Arabia into three regions: Arabia Petraea ("rocky"), Arabia Deserta ("deserted"), and Arabia Felix ("fortunate"). The last, the southwestern corner, included the territory now occupied by Yemen. The region was the site of a series of rich kingdoms that dominated world trade. The wealthy kingdom of Sheba (or Saba), with its capital at Ma'rib, is the best known of the South Arabian kingdoms. The prosperity of this kingdom (10th to 2d centuries BC) was based on the spice and incense trade. Competition from new trade routes undermined Sabaeen prosperity and caused the kingdom to decline. From the 2d century BC to the 6th century AD, the Himyarite dynasty, of ethnic stock similar to that of the Sabaeans, ruled in Arabia Felix, and paganism gradually gave way to Christianity and Judaism.

The Himyarite hegemony was ended in 525 by invading Christian Ethiopians, whose rule lasted until 575, when they were

driven out by Persian invaders. Islam was accepted in the next century, and Yemen became the battleground of Muslim religious factions. The coastline (Tihama) was held by the Sunnis of the Shafi'i School, while the highlands were controlled by the Zaydis, a Shi'a sect.

In the 9th century, a Zaydi ruler, Yahya al-Hadi ila'l Haqq, founded a line of imams that survived until the second half of the 20th century. Nevertheless, Yemen's medieval history is a tangled chronicle of contesting local imams. The Fatimids of Egypt helped the Isma'ilis maintain dominance in the 11th century. Saladin (Salah ad-Din) annexed Yemen in 1173. The Rasulid dynasty (Kurdish and Turkish in origin) ruled Yemen, with Zabid as its capital, from about 1230 to the 15th century. In 1516, the Mamluks of Egypt annexed Yemen; but in the following year, the Mamluk governor surrendered to the Ottoman Turks, and Turkish armies subsequently overran the country. They were

challenged by the Zaydi imam Qasim the Great (r.1597–1620) and expelled from the interior around 1630. From then until the 19th century, the Ottomans retained control only of the coastal area, while the highlands generally were ruled by the Zaydi imams.

Early in the 19th century, Yemen was overrun by Wahhabis, but in 1818, Ibrahim Pasha, the son of Muhammad 'Ali of Egypt, drove them out of Yemen and reestablished Zaydi control. Egyptian troops occupied the main ports of Yemen until 1840, when they were withdrawn. The Zaydi imams recognized Ottoman suzerainty and paid a large annual subsidy to the Ottoman sultan. After 1840 the situation was anarchic, and law and order in any form was not reestablished until 1872, when the Ottomans again occupied Sana and consolidated their control. The northern mountains remained under the control of Zaydi imams from the Hamid ad-Din family. The Ottomans kept a large force in Yemen during World War I, but under the armistice terms evacuated it in 1918 and Yemen became independent.

In 1834 the British had occupied Aden as a coaling station on the route to India; the importance of the territory was substantially increased with the opening of the Suez Canal in 1869.

To protect its foothold in Aden the United Kingdom had signed a treaty of "protection and advice" with rulers of the tribes and states in the hinterland, leading to the adoption of the names Western Aden Protectorate (WAP) and Eastern Aden Protectorate (EAP). As long as northern Yemen remained at least nominally a part of the Ottoman Empire, relations on the frontier between the United Kingdom (in the WAP and EAP) and the Turks (in Yemen) were relatively peaceful.

During World War I the British supported the Idrisi tribe's attempt to establish itself in Yemen. In 1919 the United Kingdom occupied Al-Hudaydah, which came into Idrisi hands when the British withdrew in 1921. The Zaydis, now led by Imam Yahya ibn Muhammad Hamid ad-Din, who had become imam in 1891, waged an armed struggle against the Idrisis that ended when Imam Yahya seized Al-Hudaydah in 1925. The imam also sought to move into the states of the Western Aden Protectorate in an attempt to reestablish his suzerainty in these territories formerly held by the Yemenis. The Idrisis came under the protection of King Ibn Sa'ud, and in 1934, a war broke out between the Sa'udis and Yemenis. By the Treaty of Ta'if (May 1934), Yemen lost 'Asir to Sa'udi Arabia but won British and Sa'udi recognition of its independence. However, incursions by the imams against the UK protectorate in Aden continued until 1962.

In 1959 the United Kingdom formed the six WAP states into the Federation of Arab Emirates of the South, with others joining later. The inhabitants of Aden, who were more politically and economically advanced than those of the protectorates, opposed adherence to the federation. Nevertheless, Aden in 1963 was merged into the federation, which then became known as the Federation of South Arabia.

The dispute over the future form and direction of this new political entity, as well as over which other states would join it, resulted in several years of factional violence, as various political parties, labor organizations, and other groups struggled for political ascendancy. Finally, in 1967, the National Liberation Front (NLF) emerged as the strongest political group, and the United Kingdom agreed to negotiate with it concerning future independence. On 30 November 1967 all the states of the WAP and EAP were amalgamated, the last British soldiers withdrew, and the NLF declared the independence of the People's Republic of South Yemen. On 22 June 1969 the head of the NLF, Qahtan ash-Sha'bi, was deposed by a group of young leftists of the NLF. The new regime, headed by a five-man council, renamed the country the People's Democratic Republic of Yemen (PDRY), developed close ties with the USSR, and secured economic aid from it and China. A further political alignment occurred in

1971, when Salim Rubaya 'Ali became head of state and 'Abd al-Fattah Isma'il was named head of the party, in an uneasy rivalry. In 1978 Isma'il, the head of the Yemen Socialist Party (YSP), formerly the NLF, overthrew and executed President 'Ali and assumed the presidency. Isma'il resigned his position in 1980, ostensibly for reasons of health, and went into exile. 'Ali Nasir Muhammad al-Hasani, the prime minister, assumed the presidency.

Meanwhile, Yemen joined the League of Arab States in 1945, and in 1958, it formed a federation, the United Arab States, with the newly established United Arab Republic (UAR). In December 1961 however, the pro forma federal connection with Egypt was severed, and in September 1962 the government of Imam Muhammad al-Badr, only a few days old, was overthrown by revolutionary forces led by Brigadier (later Marshal) 'Abdallah as-Sallal. He proclaimed himself president and commander-in-chief of the army and declared the establishment of the Yemen Arab Republic. Badr escaped to the northern regions of the YAR, where he organized a counterrevolutionary force.

A civil war between the royalists (defenders of the imamate) and the republican government broke out, and appeals by both sides for support brought about the active intervention of other Arab states. Sa'udi Arabia supported the royalist cause, and the UAR came to the assistance of the republic, dispatching up to 70,000 troops to the YAR; fighting was particularly bitter during the winter of 1963-64. Eventually the conflict subsided, as the Sa'udis curtailed their aid to the royalists and the Egyptians to the republicans. Sallal was deposed in November 1967 and replaced by a Republican Council. Talks between republican leaders and Sa'udi Arabia in March 1970 at Jiddah concluded with an agreement that ended the civil war and left the republicans in control.

In June 1974 'Abd ar-Rahman al-Iryani (who had been president since 1967) resigned, thrusting the country into a state of political confusion. By the end of the year Lieutenant Colonel Ibrahim Muhammad al-Hamdi had emerged as president, heading a government with powers of centralized control that were progressively strengthened. Hamdi was assassinated by unknown assailants in October 1977. His successor, Colonel Ahmad ibn Hussein al-Ghashmi, who formed a civilian government and established the Constituent People's Assembly, met a similar fate in June 1978, in a bomb blast in which PDRY involvement was suspected. Lieutenant Colonel 'Ali 'Abdallah Saleh thereupon became president. In 1982, he inaugurated the General People's Congress as an instrument for popular political mobilization.

Since independence, the PDRY was embroiled in conflicts with all three of its neighbors. A separatist movement was supported in Oman; there were border skirmishes with Sa'udi forces in 1969 and 1973; and the PDRY fought a brief war with the YAR in February-March 1979. The war ended with a truce, mediated by the Arab League, and with an agreement in principle to seek unification of the two Yemens. On 13 January 1986 PDRY President Muhammad attempted to eliminate his rivals within the YSP. A number of officials were killed, including Isma'il, and Muhammad was forced into exile, along with thousands of his followers. A civil war ensued during the following two weeks, in which about 4,200 died and the supporters of Muhammad were defeated. Haydar Abn Bakr al-'Attas, the prime minister, took over as acting president; Dr. Yasin Sa'id Nu'man was appointed prime minister, and 'Ali Salim al-Bayd was chosen as the new head of the YSP. President al-'Attas was officially elected in November 1986.

In late 1981 a constitution for the two Yemens was drafted. However, implementation was hampered by the continuing insurgency against President Saleh by the leftist National Democratic Front (NDF), which was based in, and reportedly aided by, the PDRY. Saleh was able to defeat the NDF militarily

in 1982. Movement toward unification was maintained in repeated declarations and meetings through 1985, but no real progress was achieved. The January 1986 civil war in the PDRY set back relations between the two countries, particularly since 50,000 refugees fled the YAR, but both governments subsequently reaffirmed their commitment to unity.

In 1989 the leaders of the YAR and PDRY approved the 1981 draft constitution and their legislatures ratified it on 21 May 1990. The unified Republic of Yemen was proclaimed the following day. In the May 1990 election, 121 seats were won by the northern General People's Congress, sixty-two by Islaah (an Islamist and tribalist party), fifty-six by the southern Yemeni Socialist Party, forty-seven by independents, and fifteen by five other parties. On 22 May 1990 Ali Abdullah Saleh became the president of Yemen and Haidar Abu Bakr al-Attas the first prime minister, serving until 9 May 1994. A 30-month transition period was set for unifying the different political and economic systems. The army, police, and civil service were not integrated as planned, however. Meanwhile, the economy was hard hit by the consequences of Yemen's support for Iraq after the Kuwait invasion. It is estimated that Saudi Arabia expelled between 800,000 and 1 million Yemeni workers, thus depriving Yemen of some \$3 billion in foreign exchange. In addition, the Sa'udis and Gulf states ended \$2 billion in foreign aid. Unemployment in Yemen reached 30%.

Free and fair parliamentary elections were held in April 1992 with President Saleh's General People's Congress (GPC) barely missing a majority victory. A three-party coalition was formed but foundered in late 1993 when Vice President Ali al-Beidh of the Yemen Socialist Party boycotted meetings. Although the quarrel appeared to be patched up with an agreement in February 1994, fighting broke out in May of that year. In a few months, thousands of casualties had been suffered; tribes, clans, and militias were engaged in seeking their own selfish goals and the city of Aden was under siege. Some observers attributed the civil conflict to the recent discovery of massive oil reserves in the south and to Saudi Arabia's interest in weakening Yemen by promoting the breakup of the union. The future looked bleak, despite efforts of the UN and some Arab states to promote peace. Meanwhile, on 9 May 1994 Muhammed Said al Attar became acting prime minister until 6 October 1994 when Abdel Aziz Abdel Ghani took office.

Although bloody, the civil war was short-lived, with the north having subdued the rebellious south by July. Restoring civil order was difficult, especially in light of the dire economic straits faced by the country, which in 1995 had 70–90% inflation and a deficit of 17% of GDP. The IMF and World Bank stepped in after the war and instituted structural adjustment programs which brought inflation down below 10%, with further reduction to 6% expected in 1997 (for the non-oil sector).

In 1997 parliamentary elections were scheduled for May and it was expected that Saleh's GPC would retain its sizable majority. The international community expressed skepticism as to the fairness of the elections but, in the context of the Persian Gulf, they were expected to be reasonably fair. Notably, the YSP, representing the defeated south, announced that it would boycott the elections in protest of the GPC's collusion with Islaah, a tribal and Islamist party, to rig the elections. Saleh maintained the presidency and on 14 May 1997 Faraj Said Bin Ghanem became the new prime minister. On 29 April 1998 Bin Ghanem resigned and Abdel Karim al-Iriani became acting prime minister. In September 1999 President Ali Abdullah Saleh was reelected in Yemen's first direct presidential election. The YSP boycotted the election. Charges of fraud were made by the opposition with allegations of underage voting, multiple balloting, and unauthorized submission of ballots by absentee voters.

Yemen's history of kidnappings, over 100 Westerners the first six years of the 1990s, continued through 2000. In the past the

kidnappings were economically motivated, i.e., Yemeni tribesmen asking for money. However, the more recent ones appeared ideological—Muslims demanding the release of prisoners held by another Muslim group. Kidnappings damaged Yemen's economy by their impact on its tourist industry. Falling world oil prices also hit Yemen hard since oil accounts for over 80% of Yemen's exports. Yemen attempted to increase economic productivity with a campaign against qat (khat) chewing. Qat is a mild indigenous narcotic plant customarily chewed by some 75% of the Yemeni population. In August 1999 the government led by President Saleh, himself a qat user, launched a campaign to reduce qat usage by swearing off qat and encouraging others to follow his example. Anti-qat campaigns have been politically treacherous as former prime minister Mohsin al-Aini was ousted in 1972 after attempting to stamp out qat-chewing.

On 12 October 2000, two suicide bombers detonated a small boat containing explosives alongside the USS *Cole* as it was refueling in Aden harbor. Seventeen US sailors were killed and 39 others were wounded. In remarks broadcast on Qatar's al-Jazeera satellite channel in March 2001, al-Qaeda leader Osama bin Laden praised the attack. Bin Laden, whose father was of Yemeni origin, had been indicted by the United States for the 1998 bombings of the US embassies in Kenya and Tanzania that killed 224 people. In the aftermath of the 11 September 2001 terrorist attacks on the United States, attributed to al-Qaeda, the United States focused attention on governments in the world responsible for harboring and supporting terrorists. Since 1992, the United States has alleged that bin Laden and al-Qaeda targeted US military forces in Yemen, and that al-Qaeda has formed alliances with jihad groups in Yemen. In June 2001, Yemeni officials arrested 9 men believed to be affiliated with the Islamic Army of Aden, a fundamentalist group linked to bin Laden, for the 2000 attack on the *Cole*. The group was responsible for kidnapping 16 Western tourists in December 1998; four of the hostages were killed in a gun battle between the group and Yemeni government troops. The Islamic Army of Aden apparently advocates the imposition of Islamic law in Yemen, is against the United States or other Western states using Yemeni ports or bases, and supports the lifting of international sanctions against Iraq.

In November 2001, President Saleh met with President Bush, assuring him that Yemen was a partner in the war on terrorism. In December, Yemen detained some 80 foreign students and teachers from an Islamic fundamentalist institute in the Marib province, where Yemeni special forces were searching for al-Qaeda suspects. In February 2002, Yemen expelled more than 100 foreign Islamic scholars, including British and French nationals, in an effort to curb the spread of terrorism. Scores of prisoners being held by the United States as a result of its 2001–2002 campaign in Afghanistan are natives of Yemen. In March 2002, the United States was finishing plans to send hundreds of US Special Forces to Yemen, to “advise and assist” Yemeni forces combating armed groups affiliated with al-Qaeda. No combat role for the US forces was envisioned.

On 6 October 2002, the French oil tanker *Limburg* was the target of a terrorist attack in the Gulf of Aden, which killed one crewmember and released 90,000 barrels of oil. An explosives-laden boat hit the tanker, in an attack that was similar to the one on the USS *Cole*. On 3 November, a US CIA-controlled unmanned Predator surveillance plane fired a Hellfire missile into a car in northwest Yemen, killing 6 al-Qaeda operatives, including Qaed Salim Sunian al-Harethi, considered to be Osama bin Laden's chief operator in Yemen. Al-Harethi was also a suspect in the 2000 bombing of the *Cole*. President Saleh called on al-Qaeda members to renounce violence and turn themselves in to face trial in Yemen, as opposed to being turned over to the United States.

In December 2002, a North Korean freighter disguised as a Cambodian ship was intercepted in the Arabian Sea and seized at gun point by the US Navy and Spanish marines; the vessel was carrying a shipment bound for Yemen of 15 Scud missiles, warheads, and an agent used in Scud fuel. President Bush ordered the shipment released after concluding the Yemen-North Korean deal was concluded on a legal basis. Also in December, a Yemeni Muslim extremist killed three American doctors and wounded a pharmacist by opening fire in a Baptist hospital in the town of Jibla.

Domestically, on 20 February 2001, Yemen amended its constitution to extend the presidential term of office from 5 to 7 years, and to reorganize the bicameral parliament. The referendum was passed by 73% of the voting population. Also in February, municipal elections were held for the first time.

### 13 GOVERNMENT

The 1970 YAR constitution affirmed Islamic law as the basis of all legislation and established the unicameral Consultative Assembly as the supreme legislative body. The assembly was authorized to name the president and to appoint the ruling Executive Council. In the first national elections, held in 1971, voters selected 119 members of the Consultative Assembly; the president appointed the forty remaining members. This body was dissolved in 1974, and in 1978, the Constituent People's Assembly replaced it, with 99 members elected and 60 members appointed by the president for a 2-year term.

In the General People's Congress (GPC), created in 1982, 700 of the 1,000 members were elected, with the other 300 appointed by the government. Between meetings (held every two years), the GPC's affairs were to be handled by a seventy-five-member standing committee. The president, elected by the Constituent People's Assembly for a five-year term, served as secretary-general of the GPC and commander-in-chief of the armed forces and appointed the prime minister and a ministerial council.

The 1970 constitution of the PDRY was ratified by the general command of the United Political Organization-National Front, which later became the Yemen Socialist Party (YSP). The Supreme People's Council, which had 111 members elected by universal suffrage at age eighteen, enacted laws; elected a Presidium and its chairman, who served as head of state; and chose the prime minister and the Council of Ministers. The YSP apparatus and the organs of government were closely intertwined.

The 1990 unity constitution established a political system based on free, multiparty elections. During the transitional period a presidential council was created with five members, three from the North and two from the South, to oversee executive operations. The council appointed a prime minister who picked a thirty-eight-member cabinet. A 301-member parliament was also formed, with 159 members chosen from the North, 111 from the South, and thirty-one at large. Constitutional amendments in 1994 eliminated the presidential council, and provided that the president would be elected by popular vote from at least 2 candidates selected by the legislature. In 1999, Yemen held its first direct presidential elections.

Legislative elections were again held in 1993, with the GPC maintaining its majority (124 seats). Islaah won sixty-one seats and the YSP took fifty-five. Independent candidates won forty-seven and members of the country's dozens of other political/tribal parties took thirteen seats. Following the 1994 civil war, the GPC and Islaah formed a unity government. The next parliamentary elections were in April 1997. The GPC maintained its dominance taking 187 of 299 seats. The YSP, the only substantial opposition since the GPC and Islaah joined forces, boycotted the elections, which they said were being managed by the GPC leadership.

On 20 February 2001, new constitutional amendments extended the presidential term of office from 5 to 7 years, and extended the parliamentary term of office to 6 years. The president may now serve a maximum of two 7-year terms. A bicameral legislature was created, consisting of an upper house, the Consultative Council or Shura Council, with 111 seats appointed by the president; and a House of Representatives composed of 301 members elected by popular vote. The next presidential elections were slated for 2006, and legislative elections were scheduled for 27 April 2003. Suffrage is universal at 18.

### 14 POLITICAL PARTIES

The National Liberation Front, which emerged in 1967 as the strongest faction in the disputes before South Yemen's independence, became the United Political Organization-National Front in 1970 and changed its name to the Yemeni Socialist Party (YSP) in 1978, when two smaller leftist parties were merged with it. This Marxist-Leninist organization, the PDRY's lone political party, was the only group to offer candidates in the 1986 legislative elections and survived to represent southern interests in the unified Yemen.

In pre-unification north Yemen, political parties in the Western sense played no role. Tribal allegiances were more important political factors. After unity, the northern leader, General Saleh, formed the General People's Congress (GPC), which became the country's largest party. The second-largest bloc in the parliament is held by the Islaah Party (The Yemeni Congregation for Reform), a fusion of tribal and Islamic interests that opposed the unity constitution because it did not sufficiently adhere to Islamic principles. At least forty smaller parties have been active in the politics of unified Yemen, but the GPC, Islaah, and the YSP are the only ones of national significance. After the 1994 civil war, the GPC and Islaah formed a coalition government to establish civil order.

In the April 1997 legislative election the GPC won a landslide victory and no longer governed in coalition with Islaah. The YSP boycotted the April 1997 legislative election. In addition to these three main parties, as of 1997, the other parties active in the political arena that had fulfilled Yemen's legal procedures to practice political activities were the Peoples Nasserite Reformation Party, Liberation Front Party, Nasserite Democratic Party, League of the Sons of Yemen, Federation of Popular Forces, National Arab Socialist Baath Party, National Democratic Front, Al Haq Party, Yemen League Party, and the National Socialist Party. As of 2003, the active parties are GPC, Islaah, Yemeni Socialist Party (YSP), Nasserite Unionist Party, and the Arab Socialist Rebirth Party.

In September 1999 Yemen held the first direct presidential elections ever held on the Arabian peninsula. Longtime president Saleh captured 96.3% of the vote; Najeeb Qahtan al-Shaabi, his only opponent, won 3.7% of the vote. Led by the YSP, a coalition of opposition groups boycotted this election.

### 15 LOCAL GOVERNMENT

The YAR was divided into eleven governorates (*muhafazat*), each headed by a governor. Each governorate contained a varying number of sectors (*nawahi*). Traditional divisions still extant included the uzlah, a group of villages (*qura*) of people who belong to the same tribe, headed by a sheikh; and the mahall, a group of houses administratively subordinate to a village. The central government retained ultimate authority over local officials, although certain administrative sanctions were granted to traditional local rulers.

In an effort to de-emphasize older loyalties and associations, the PDRY government created a highly centralized state and divided the country into six governorates, all closely controlled by the central authorities. Each had an appointed governor, and

each was divided into districts, which were also administered by appointed officials.

The unified government established 17 governorates, subdivided into districts. In the countryside, especially in the north and east, tribal authority is often stronger than formal government institutions. There are currently 20 governorates, and 326 district municipalities. The government has taken steps to implement decentralization. Municipal elections were held for the first time in February 2001. Authority over local planning, development, and administration is consolidated in municipal councils. The February elections included 26,832 candidates for 6,614 district municipal council seats and over 2,500 candidates for 418 provincial council seats. Those elected are to serve a 2-year transitional term.

## 16 JUDICIAL SYSTEM

Under a 1991 decree the separate judicial systems of the former YAR and the former PDRY were unified at the Supreme Court level. A Supreme Judicial Council administers the judiciary, appointing and promoting judges and reviewing policies regarding the structure and functioning of the judicial system. There are courts of first instance, which hear civil, criminal, commercial, and family matters; decisions can be appealed to courts of appeal. The Supreme Court rules on the constitutionality of laws, hears cases brought against high government officials, and is the last court of appeal for all lower court decisions. The judiciary, especially at the lower levels, is susceptible to pressure and influence from the executive branch. All laws are codified from *Shari'ah*, and there are no jury trials. In addition to regular courts, a system of tribal adjudication exists for some noncriminal issues, although the tribal "judges" often hear criminal cases as well.

The former YAR judicial system consisted of *Shari'ah* law and courts for criminal and family law areas administered in each district by a hakim and commercial law and courts for business matters. In remote areas, tribal law was applied in tribal courts. The *Shari'ah* courts applied Islamic law and litigants could appeal the decision of a *hakim* to another *hakim*, and from him take a final appeal to the *Istinaf*, the highest court of appeal, in Sana. Both sets of courts were considered generally fair and impartial. Former YAR state security courts were abolished with unification.

The former PDRY court system was organized in three tiers: magistrate or divisional courts, provincial courts, and military courts. Magistrate courts handled most criminal, juvenile, family, housing, agrarian, and other minor civil matters. Provincial courts handled more serious criminal cases, inheritance cases, major civil claims, and appeals from magistrates' courts. *Shari'ah* courts applying Islamic law and tribal courts applying traditional law also existed alongside the modern court system.

## 17 ARMED FORCES

In 2002, the active armed forces of Yemen numbered 66,500 with some 40,000 reserves. The army of 60,000 was equipped with 790 main battle tanks and some 310 towed artillery pieces. The navy of 1,500 operated 11 patrol and coast combatants and nine other vessels. The air force, with 5,000 members, had 76 combat aircraft and eight attack helicopters. The paramilitary included a national security force of 50,000, and at least 20,000 tribal levies. A coast guard is slowly being established. Yemen spent \$482.5 million for defense in 2001, or 5.2% of GDP.

## 18 INTERNATIONAL COOPERATION

Yemen joined the Arab League in 1945 and was admitted to UN membership on 30 September 1947; the republican government became Yemen's UN representative in December 1962. Yemen participates in the ESCWA and all the nonregional specialized

UN agencies. The country is also a member of G-77, a signatory to the Law of the Sea, and an applicant to the WTO.

Yemen is on good terms with both conservative and radical Arab states. Several thousand PLO fighters from Beirut were accepted in 1982. Military aid and advisers have been accepted from both the United States and the former USSR.

## 19 ECONOMY

Traditionally an agricultural area, northern Yemen was self-sufficient in food and a net exporter of agricultural product until the Civil War in the 1960s and a prolonged drought in the early 1970s. In the late 1970s and early 1980s many farmers switched from labor intensive food crops to the more profitable cultivation of *qat*, a mild stimulant chewed by many Yemenis that has no significant export market. The economy of southern Yemen developed through foreign assistance (especially from the former USSR). The southern city of Aden, with its port and refinery, is the economic and commercial center of the country. The Yemeni economy depends on imports of wheat, flour, rice, and other foodstuffs. Trade deficits have been offset by remittances from Yemenis working abroad and by foreign aid.

Crude oil is now a significant sector of the economy, with exports accounting for over 80% of total exports. Following the unification of the country in 1990, responsibility for development of the oil sector fell to the state-owned general corporation for oil and mineral resources. Civil war in 1994 disturbed output. Oil output has been declining since 1995, and over 200 dry wells have been drilled, suggesting that the industry has passed its peak.

When Yemen aligned with Iraq during the Gulf War, Sa'udi Arabia and the Gulf states, Yemen's main aid donors and hosts to large numbers of Yemeni workers and their families, ended the Yemenis' privileged status. The economic impact of lost remittances was estimated at about \$1 billion per year. After the Gulf crisis, Yemen was confronted with high unemployment, lost remittances, halving of US military aid, a sharp cutback in USAID programs, other canceled foreign assistance, and the cost of food imports and social services for the returnees totaling about \$500 million.

Following the civil conflict in 1994, the government began a five-year program in 1995 that removed all controls on the exchange rate and cut the interest rate, as well as initialized trade policy reform, privatization, and the elimination of price controls. The reforms were favorably received by the World Bank and IMF, which agreed to provide aid.

A new liquefied natural gas drilling project promised exploitation of Yemen's 482 billion cu m (17 trillion cu ft) of gas reserves in subsequent years, although in 2002 US companies ExxonMobil and Hunt Oil withdrew from the project, leaving the French-based company, TotalFinaElf, as the lead investor.

Gross domestic product (GDP) grew at an average rate of 3.8% from 1988 to 1998. Low oil prices in 1999 held real GDP growth to 3.7% in 1999, and their recovery helped push real growth to GDP to 5.1% in 2000. A stabilization in oil prices combined with declines in the growth of agricultural output, electricity and manufactures, attributable more to the domestic lack of rain than to the global economic slowdown, reduced GDP growth to 3.3% in 2001. Consumer price inflation had fallen to 6% in 1996 and 8% in 1998, but the average from 1999 to 2001 was 11%. An increase to 15.8% inflation was estimated for 2002 reflecting high fuel, electricity, and food prices from both shortages and the lowering or elimination of subsidies. Yemen is one of the 25 poorest and economically least development countries in the world with about a third of the population living in poverty.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Yemen's gross domestic product (GDP) was estimated at \$14.8 billion. The per capita GDP was estimated at \$820. The annual growth rate of GDP was estimated at 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 17% of GDP, industry 40%, and services 43%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1,288 million or about \$70 per capita and accounted for approximately 15.1% of GDP. Worker remittances in 2001 totaled \$1,542 million. Foreign aid receipts amounted to about \$24 per capita and accounted for approximately 5% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$219. 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 13%. Approximately 25% of household consumption was spent on food, 26% on fuel, 3% on health care, and 5% on education. The richest 10% of the population accounted for approximately 25.9% of household consumption and the poorest 10% approximately 3.0%.

## 21 LABOR

In 1998, Yemen's workforce was estimated at five million. According to 1992 estimates, 64% of the labor force is employed in agriculture and herding, 25% in services, and 11% in commerce and industry. In 1995 the estimated unemployment rate stood at 30%.

United Yemen enacted a new labor code in 1995, (amended in 1997) which guaranteed the rights of unionization and collective bargaining. The government restricts this right by placing government officials in union positions of prominence. The Yemeni Confederation of Labor Unions, the country's only labor confederation, had 350,000 members in 14 unions in 2002. There exists a limited right to strike. All collective bargaining agreements must be reviewed by the minister of labor.

There is no nationally fixed minimum wage. Average wages do not provide a family with a decent standard of living. Although children under the age of 15 are prohibited from working, child labor is common, especially in rural regions. The labor code calls for a maximum eight-hour workday and a 48-hour workweek.

## 22 AGRICULTURE

Yemen, with its wide range of arable climatic zones, has the greatest potential for agricultural development of any nation on the Arabian Peninsula. Agriculture is an important part of the economy (accounting for 17% of GDP in 2001), despite the lack of arable land, scarcity of water, periodic droughts, and difficult terrain. Employment in the agricultural sector accounts for more than 64% of the workforce, but with only 3% of its land area arable, Yemen's potential for agricultural self-sufficiency is very remote. As of 2001, Yemen imported \$857.2 million in agricultural products.

Traditionally, Yemen was famous for its coffee, shipped from the port of Al-Mukha, from which the English word mocha derives. The main cash crop is qat, a mild stimulant chewed by many Yemenis on a daily basis, but not exported significantly because it is highly perishable. Industrial farming of fruits and vegetables, using modern irrigation techniques, provides a level of production to nearly satisfy domestic demand. As a high-cost producer, Yemen is not yet able to internationally compete in

marketing its produce, especially since such exports are often blocked at the borders.

Agriculture output in 1999 (in 1,000 tons) included sorghum, 321; tomatoes, 248; wheat, 144; grapes, 160; bananas, 88; seed cotton, 25; sesame seed, 18; coffee, 12; and cotton, 8.

## 23 ANIMAL HUSBANDRY

Animal husbandry is a key sector of the economy, and the export of hides and skins has long been an important source of foreign exchange. In 2001, the livestock population was estimated at 5,029,000 sheep, 4,453,000 goats, 1,400,000 head of cattle, 500,000 donkeys, and 198,000 camels.

Commercial production of poultry in Yemen began in the mid-1970s. Yemen produces about 95% of its annual consumption of eggs and is emerging as a significant producer of broilers (chicken meat). The brief civil conflict in 1994 hurt the industry by driving up the costs of imported feed and vaccines. About 78,000 tons of poultry were marketed by eight companies in 2001. About 32,000 tons of eggs were marketed in 2001.

## 24 FISHING

Fishermen work along the Arabian Sea, Gulf of Aden, and Red Sea coasts. The annual fish catch in 2000 was about 114,751 tons. Principal species of that catch included Indian and Spanish mackerel, cuttlefish, lobster, and scavengers. Fish-processing plants are located at Al-Hudaydah and Al-Mukalla. Exports of fish and fish products were valued at \$40.9 million in 2000. Pearl and coral diving have been practiced for centuries.

## 25 FORESTRY

Forest and woodland coverage is negligible. Forests once covered Yemen, but overgrazing by goats and the systematic cutting of timber for fuel and construction have almost completely eliminated the forest cover, especially in the south. Roundwood production totaled 302,000 cu m (10.7 million cu ft) in 2000, all of it used for fuel. Lumber imports amounted to \$44.9 million in 2000.

## 26 MINING

Until the discovery of petroleum—the preeminent segment of the Yemeni economy—the mineral industry had been limited to the production of cement, dimension stone, gypsum, and salt. In 2000, production of cement amounted to 1.4 million tons; dimension stone, 2.5 million cu m; marble, 86,000 sq m; gypsum, 100,000 tons; and salt, 150,000 tons. The government was focusing on creating conditions favorable to foreign investment, to develop the nation's mineral resources. The government had exclusive domain over the precious stone and hydrocarbon industries; mining legislation guaranteed the rights of private property for all other commodities. ZincOx Resources, of the United Kingdom, continued evaluating the Al-Jabail zinc deposit, which Anglo American Corp. had explored in the late 1990s.

## 27 ENERGY AND POWER

A number of companies have held oil concessions, but commercial deposits were not discovered until July 1984, when the US-based Hunt Oil Company struck oil in the eastern governorate (province) of Marib. As of 1999, Yemen had two aging refineries. The capacity of the Aden refinery had declined from 170,000 barrels per day before the 1994 civil war to 120,000 barrels per day as of 2002. The newer Marib plant has a capacity of 10,000 barrels daily. Oil production is split between Canadian Occidental (which had been operating in North Yemen since 1987) in the Masillah block, US Hunt Oil in the Marib field, and three other operators. In 2001, oil production amounted to 452,521 barrels per day. Proven oil reserves as of 1 January 2002 were 4 billion barrels. Exploration declined in

1994 due to civil war between the north and south but picked up again in 1997.

Most exploration occurs in the Marib and Masillah fields, with some activity also in the eastern Hadhramaut and Hehara regions. Most new oil discoveries in recent years have been in southern Yemen.

With natural gas reserves estimated in early 2002 at 478 billion cu m (17.2 trillion cu ft), Yemen has potential as a gas producer. Most of the known reserves are concentrated in the Marib-Jawf fields, operated by the Yemen Exploration and Production Company.

Total electricity production was 2.8 billion kWh in 2000, of which 100% was from fossil fuels. Total installed capacity in 2001 was 810,000 kW, entirely based on conventional thermal sources.

## 28 INDUSTRY

In northern Yemen industry traditionally has been based on food processing, but this subsector has suffered from poor productivity of agriculture and reliance on imported raw materials. Building materials, textiles, leather wear, jewelry, and glass making are other industries in the north. The largest industry in southern Yemen is petroleum refining. Southern manufactures include clothing, processed food, metal products, soap, and perfumes. Industrial production accounts for 40% of GDP (1998 est.)

Yemen's main refinery at Aden processed 60,000 barrels of petroleum per day in 1994 after sustaining damage in the civil war. Output reached 100,000 barrels per day by the start of 1995 with the repair of the main pumping station and two tapping units. That year, the refinery produced 26.5 million barrels of residual and distillate fuel oil, 10 million barrels of gasoline, and 3.5 million barrels of kerosene. In 2002, Yemen's total refinery capacity is 130,000 barrels per day, most from the 120,000-barrels-per-day-capacity Aden refinery operated by the Aden Refinery Company (ARC), and the rest from a 10,000-barrels-per-day refinery at Marib operated by Yemen Hunt Oil Company. In December 2002, the government signed an agreement with the Hadramawt Refinery Company, a Saudi venture, for the construction of a 50,000-barrels-per-day refinery at Al Mukalla costing \$450 million.

Yemen's considerable natural gas reserves—estimated at 480 billion cu m (16.9 trillion cu ft), have not been developed. A liquefied natural gas project was initiated in 1995 by TotalFinaElf and several other major multinational oil companies, which established the Yemen Liquefied Natural Gas Company (Yemen LNG). To date, however, the company has not been able to locate enough credit-worthy buyers of the output that it could sign up for the period of 20 years or more generally needed to justify the large capital outlays for liquefaction and port facilities, and LNG tankers. In June 2002, two US companies, ExxonMobil and Hunt Oil, announced they were leaving the consortium. Shortly after Yemen extended approval for an additional four years.

## 29 SCIENCE AND TECHNOLOGY

The University of Aden, founded in 1975 at Al-Mansoorah, has faculties of science, arts, and education; agriculture; engineering; and medicine. Sana University, founded in 1970, has faculties of science, medicine and health sciences, engineering, and agriculture.

## 30 DOMESTIC TRADE

At the center of most towns is a market place (*sug*), the lanes of which are lined with open-front booths where food and implements are displayed and sold. Some goods are bartered. Others sold for cash, usually after bargaining. The production of *qat*, a mild stimulant which many Yemenis chew, plays an important role in domestic trade. Relying on a highly sufficient internal distribution system, the production of *qat* would increase

per capita GDP an estimated 15–20% were it included in the national income statistics. Corruption among civil servants is a common element of domestic commerce—soldiers at checkpoints confiscate money or *qat*, and businesses are often obliged to pay off local officials.

Customary business hours are from 8 AM—1 PM and from 4 PM—7 PM, Saturday–Thursday. Banks are open from 8 AM—12 PM (11:30 AM on Thursdays).

## 31 FOREIGN TRADE

Petroleum accounts for about 91% of the country's exports. Oil export revenues were estimated at \$1.4 billion in 1998. Other exports in recent years have included coffee and dried and salted fish; imports included food and live animals, machinery and equipment, and manufactured goods.

In 1998 Yemen's imports were distributed among the following categories:

Consumer goods	10.8%
Food	29.4%
Fuels	6.4%
Industrial supplies	27.8%
Machinery	16.6%
Transportation	8.4%
Other	0.6%

Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
China (inc. Hong Kong)	731	62	669
Thailand	646	39	607
Korea	347	29	318
Singapore	207	71	136
India	179	55	124
Kuwait	53	120	-67
Saudi Arabia	45	246	-201
United Arab Emirates	18	256	-238
United States	16	125	-109
United Kingdom	5	87	-82

## 32 BALANCE OF PAYMENTS

Yemen's balance of payments was adversely affected in the early 1990s, as other nations sought to economically punish Yemen for its support of Iraq during the Persian Gulf War. In 1993, the current account deficit reached a peak of \$1,217 million, foreign exchange reserves sank to just \$144.6 million, and the trade deficit was \$920 million. Transfers, consisting largely of remittances from Yemenis working in other Gulf states fell by 42% between 1990 and 1993.

As of the early 2000s, Yemen's balance of payments position had substantially improved: its current account surplus stood at \$1.8 billion in 2000, up from a \$455 million deficit in 1998. Yemen's bilateral and multilateral debt situation has also improved in recent years, with debt to Russia reduced, debt rescheduling by the Paris Club, and financing from the World Bank and IMF. In 2001, Yemen's outstanding debts stood at approximately \$4.8 billion, or 80% of GDP.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Yemen's exports was \$3.9 billion while imports totaled \$3 billion resulting in a trade surplus of \$900 million.

The International Monetary Fund (IMF) reports that in 2000 Yemen had exports of goods totaling \$4.09 billion and imports totaling \$2.48 billion. The services credit totaled \$211 million and debit \$809 million. The following table summarizes Yemen's balance of payments as reported by the IMF for 2000 in millions of US dollars.



<b>Current Account</b>	1,862
Balance on goods	1,609
Balance on services	-599
Balance on income	-548
Current transfers	1,400
<b>Capital Account</b>	312
<b>Financial Account</b>	-913
Direct investment abroad	...
Direct investment in Yemen	-201
Portfolio investment assets	0
Portfolio investment liabilities	...
Other investment assets	-509
Other investment liabilities	-203
<b>Net Errors and Omissions</b>	333
<b>Reserves and Related Items</b>	-1,594

### 33 BANKING AND SECURITIES

The republican government set up the Yemen Currency Board in 1964 with a capital of YR2 million; in 1971, the Currency Board was replaced by the Central Bank of Yemen (CBY). The state-owned Yemen Bank for Reconstruction and Development (YBRD), founded in 1962, finances development activities, and the International Bank of Yemen, organized in 1980, operates as a commercial bank. In the 1970s, the YBRD dominated the banking business, controlling some 70% of the loans outstanding in the YAR; during the same decade, a number of foreign commercial banks, including ones from Hong Kong, Iraq, Pakistan, the United States, and the United Kingdom, opened offices in Sana.

The economic recovery in 1995 and the partial liberalization of interest rates on bank deposits appear to have succeeded in encouraging the growth in savings as reflected in higher quasi-monetary holdings. In 2002, there were eleven commercial banks (9 private and 2 public) and two public sector specialized banks (Agriculture and Housing) operating under the jurisdiction of CBY. There were also three Islamic banks in operation. 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 \$3.4 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 15.16%.

There are no securities exchanges in Yemen.

### 34 INSURANCE

There were at least ten insurance firms in the Yemen in 1999. Much of the Yemen's insurance business is transacted abroad. In 1999, there was 18.8 million dollars of premiums written in Yemen, giving the insurance industry a .30% share of the Gross Domestic Product.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 2001 Yemen's central government took in revenues of approximately \$3 billion and had expenditures of \$3.1 billion. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$4.7 billion. Since unification, Yemen has run a budget deficit equivalent to 10–20% of GDP, financed primarily by bank credit. Yemen's decision to back Iraq in the Gulf War caused it to lose some \$2 billion in development aid. The civil conflict in 1994 also exacerbated the need for external assistance and debt restructuring. The government estimated revenues would increase by 90% to YR301 billion in 1997, while expenditures would rise 72.5% to YR313 billion at that time. Increased oil revenues were expected to provide most of the increase in revenues.

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>3,000</b>
Tax revenue	38.6%	1,159
Non-tax revenue	59.4%	1,782
Capital revenue	0.5%	14
Grants	1.5%	45
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>3,100</b>
General public services	22.0%	682
Defense	18.8%	582
Public order and safety	8.3%	258
Education	21.8%	676
Health	4.4%	136
Housing and community amenities	1.6%	51
Recreation, cultural, and religious affairs	2.8%	87
Economic affairs and services	11.5%	356
Interest payments	8.8%	273

### 36 TAXATION

Personal income taxes are levied on wage workers and the self-employed. Taxes on business profits are graduated. The top tax rate on personal and corporate income tax is 35%. Zakat (the religious charity tax) is state-enforced, but under the republican regime its estimation is a voluntary concern of each individual. Yemeni businessmen have been trying to abolish Zakat as an obligatory levy entirely, leaving it to the discretion of each individual to give to the needy. Taxes were increased substantially in the 1970s, with taxes on imports providing about 70% of total tax revenues. There are excise duties, road and vehicle taxes, port fees, a tax on rents, and telegraph fees. The state also derives income from the confiscated property of the imamate. The chronic budget deficits of the 1980s forced the government to place considerably more emphasis on the traditionally lax collection of taxes. In early 2002 a general sales tax (GST) was signed into law, but its implementation was delayed pending a review of the country's indirect tax system.

### 37 CUSTOMS AND DUTIES

Import duties are generally levied at rates varying from 5% on essential goods to 25% on luxury items; medical and agricultural items are duty-free, while tobacco is dutiable at 145%. Surcharges are added to these basic rates to cover defense expenditures, to finance schools and orphanages, and to assist the poor. Export duties are levied on a variety of products. Interestingly, in 1995 the government renounced the secondary and tertiary aspects of the Arab League's boycott of Israel, but will not renounce the primary aspect until the Arab League gives up the boycott completely by consensus of the member nations.

### 38 FOREIGN INVESTMENT

Foreign investment is encouraged by the Yemeni government as it is prospecting for more oil and hoping to develop its natural gas reserves. The Yemen General Investment Authority (GIA) was established in 1992, and worked with the World Bank's Foreign Investment Advisory Service, to revise Yemen's Investment Law 22 of 1991 (as amended) to refocus it on promotion rather than regulation of foreign investment. As of 2002 the Yemeni Parliament had not ratified the revisions. Investment law restructuring is part of the IMF-World Bank-sponsored economic reform program that has been being pursued in Yemen since 1995. The Yemeni Free Trade Zone Public Authority was established in 1991 to develop the Aden Free Trade Zone. The

port was developed as a joint venture between the Port of Singapore Authority (PSA) and the Bin Mahfouz Group of Saudi Arabia. In Phase II of the program, 30 hectares were made available for lease. Free zone incentives the right to have 100% foreign ownership, no personal income taxes for non-Yemenis, a 15-year corporate tax holiday, renewable for up to 10 years, and the right to 100% repatriation of capital and profit.

There are no reliable statistics on foreign investment in Yemen. US investment has mainly been in the oil and gas sector. The Houston-based Yemen Hunt Oil Company, which operates on the only other refinery in Yemen, has been operating since 1984. Its pipelines line have been repeatedly attacked. Security can not help but be a concern for Western investors given events like the kidnapping of 16 tourists in 1998 (with four killed in the rescue attempt; an bomb explosion at the Aden Refinery in 1998, the bombing of the USS *Cole* in Aden Harbor October 2001, with 17 dead, and a year later, the explosion and fire on the French-flagged tanker the *Limburg* in October 2002, with one killed and 90,000 barrels of oil spilled. More hopeful is the settlement of the its debt issues with Kuwait and Saudi Arabia which has thus made Yemen eligible for concessional loans from these neighboring states. In 1995, a consortium was established for the development of natural gas production. In addition to the government's 26% share, Total (France) had 36% equity; Hunt Oil (US), 14.6%; Exxon (US), 14.1%; and Yukong (ROK), 9.3%. On June 2002 Exxon (now ExxonMobil) and Hunt Oil withdrew from this enterprise, which has stalled for lack of an identifiable market through which the investors could recoup their investments.

### 39 ECONOMIC DEVELOPMENT

After unification in 1990, the new government assumed all debts incurred by former governments. Domestic political strains ultimately culminated in civil strife in 1994. As a result, the economy was further burdened with reconstruction costs.

The government launched a major reform program in 1995. The program included revenue mobilization through tax measures, depreciation of the customs valuation rate, the liberalization of cement prices, an increase of petroleum product prices by about 90%, and a 60% rise in electricity tariffs. The government's medium-term goal is to eliminate all subsidies by 1999–2001. Fiscal and monetary measures included the containment of primary non-development budget expenditures, partial reform of the exchange system (including currency depreciation), interest rate reform, and monetary management reforms. Furthermore, transportation and communication charges were deregulated, health and education fees were increased, and privatization programs were initiated. In 1996, 16 public enterprises were targeted for privatization. Laws prohibiting foreign investment in certain industrial sectors were abolished in 1996.

International aid has an ongoing role in the economy's development. In early 1996, the IMF agreed to provide a 15-month standby credit of \$191 million, and the World Bank authorized the loan of \$80 million to support the reform policies. The World Bank also decided to allocate government loans to Yemen worth \$365 million during 1996–99. The EU also pledged grants worth \$61.7 million in 1996/97, including \$30 million in project finance. Yemen benefited when Russia was admitted to the Paris Club (an organization of countries owed money from past official loans). Approximately 80% of Yemen's debts to Russia, mostly for arms purchases, was forgiven in the debt rescheduling. The remainder of Yemen's debt to Paris Club members was rescheduled under Naples terms (for the poorest countries, this allows for cancellation 50% to 66% of eligible sovereign debt), and in 2001, another Paris Club rescheduling provided an "exit treatment" that allowed Yemen to reach a sustainable level of indebtedness.

External debt was brought to a steady average of about 55% GDP for 2000 for the three years 2000. Yemen's fiscal imbalance has also improved in recent years, helped considerably by recovering oil prices in 2000. The fiscal deficit reached 6.4% of GDP in 1998, but then moderated to 0.2% of GDP in 1999, and, with increasing oil prices, soared to a surplus of 8.5% of GDP in 2000. In 2001 and 2002, the government continued to run surpluses of revenues and grants over expenditures, amounting to 2.8% of GDP in 2001 and 0.4% of GDP in 2002. Inflation, however, reached over 15% in 2002 due to increased prices for fuel, electricity and food.

In 2002 the parliament signed into law a general sales tax (GST), but implementation of this major tax reform designed to broaden and rationalize the tax base was delayed with IMF approval while more information about the effect of indirect taxation was collected. Yemen remains one of the poorest and least developed countries in the world. With a birth rate of around 3% a year, poverty has actually been expanding in recent years. About one-third of households are considered to be living in poverty. Water scarcity poses a severe challenge. The water crisis involves a depletion of groundwater, so that economic activity may become unsustainable in some areas. The fertility rate is 6.4, and illiteracy among women and girls is particularly high—72% of females and 44% of males are illiterate—a social deficiency with serious implications for economic development.

### 40 SOCIAL DEVELOPMENT

Families and tribes care for their sick, handicapped, unemployed, and widows and orphans. Those without family or tribal ties beg or have recourse to Islamic pious foundations (waqfs). The state operates orphanages and finances other welfare measures. A provident fund system provides old age, disability, survivor, and workers' compensation benefits. This program covers all employees, including Yemeni nationals working overseas. Workers contribute 6% of their wages, and employers pay 9% of payrolls. Old age benefits are paid as a one lump sum equivalent to 2.5% of earnings multiplied by the number of years worked. A health insurance program exists only for public employees. While the government has expanded its role in providing assistance, traditional means still predominate.

Women face considerable official and social discrimination. Polygamy is legal, and the practice of paying large dowries continues to be widespread. Women are required to obtain permission from a male member of the family in order to leave the house, and are rarely allowed to travel unaccompanied. Women have limited access to education. Conservative estimates place the illiteracy rate for women at 76%, compared with 40–50% for men. Women in southern Yemen typically have a higher level of educational attainment than those in the north. Child marriage is common, and some girls marry as early as 12 years old. Women are permitted to vote, but social customs discourage most women from becoming politically active. Violence against women and children is prevalent but considered a family issue and not reported to authorities.

Although reports of arbitrary arrest and detention continue, Yemen's human rights record has improved in some areas in recent years. In the same year, three security officers were convicted of human rights abuses. International and domestic human rights organizations operate in Yemen.

### 41 HEALTH

Malnutrition and the diseases associated with it are major health problems; 30% of children under five were malnourished in 1989–95. Malaria, typhus, tuberculosis, dysentery, whooping cough, measles, hepatitis, schistosomiasis, and typhoid fever are widespread, and sewage disposal of the most rudimentary type constitutes a general health hazard. In 2000, 69% of the population had access to safe drinking water and 45% had

adequate sanitation. Civil conflict in July 1994 created a shortage of water, food, and medical supplies in Aden, exacerbating health problems. Since the 1970s, many new hospitals and dispensaries have been established. Medical personnel that year included 2,640 doctors, 120 dentists, and 6,480 nurses. As of 1999, there were an estimated 0.2 physicians and 0.6 hospital beds per 1,000 people. As of 1999, total health care expenditure was estimated at 5.6% of GDP.

In 1997, immunization rates for children up to one year old were tuberculosis, 62%; diphtheria, pertussis, and tetanus, 57%; polio, 57%; and measles, 51%. Life expectancy in 2000 was estimated at 56 years; the infant mortality rate in 2000 was 76 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 43 and 9.3 per 1,000 people.

There were only 22 AIDS cases in 1996. The HIV prevalence rate was 0.0 per 100 adults in 1997.

## 42 HOUSING

Housing is inadequate; about one-fourth of urban housing units are huts, tents, or other makeshift structures. In the hot coastal region, most dwellings, except those of the ruling classes, are straw huts. In the highlands, the poorer people live in huts of stone or baked brick. Wealthier Yemenis live in large houses whose style is unique to southwestern Arabia: the lower part is generally built of sandstone, basalt, or granite, while the upper part, which may rise from two to eight stories, is usually of baked brick with windows outlined in decorative designs. Often a loggia topped with brass and open on all sides rises from the roof.

## 43 EDUCATION

Early Yemeni education, with regard to medieval disciplines of law, religion, history and poetry, was sophisticated and, for a country of its type, remarkably widespread. Its people contributed nobly to medieval Islamic civilization. The Al-Azhar University of Cairo was well known for its education during the 10th and 11th centuries and it attracted students from nearby countries such as Ethiopia, Arabia, and Somalia. However, in the 19th and 20th centuries, there was slow progress in the field of education. Prior to the 1962 revolution, no proper educational system was in place. Civil war and internal political upheaval only worsened the situation.

In 1990, the literacy rate for the People's Democratic Republic of Yemen was 39.1% (males, 52.8%; females, 26.1%). The rate for the Yemen Arab Republic was 38.5% (males, 53.3%; females, 26.3%). In the unified Republic of Yemen, adult illiteracy rates for the year 2000 were estimated at 53.8% (males, 32.6%; females, 75.0%). As of 1999, public expenditure on education was estimated at 6.6% of GDP.

In 1997, primary schools enrolled 2,699,788 pupils and employed 90,478 teachers. Student-to-teacher ratio stood at 30 to 1. At the secondary level in the same year, there were a total of 354,288 students. As of 1999, an estimated 61% of primary-school-age children were enrolled in school, while 37% of those eligible attended secondary school.

There are two universities: Sana University (founded in 1970) and the University of Aden (established in 1975). Total university enrollment in 1997 reached 65,675. In addition, over 2,000 Yemenis are being educated at foreign universities.

## 44 LIBRARIES AND MUSEUMS

Both the National and Miswal libraries are located in Aden. Each has a collection of 30,000 volumes. The Miswal Library also maintains another 9,000 volumes as a traveling library to serve citizens. The Library of the Great Mosque of Sana maintains a collection of 10,000 manuscripts, but is not accessible to the public. The British Council maintains two libraries: at Aden (3,000 volumes) and at Sana (10,400 volumes).

The National Museum has branches in Aden and Sana. The Aden site focuses primarily on ancient, pre-Islamic civilizations. Aden is also home to the Crater Military Museum and the Crater Folk Museum. There are local museums in Taizz and Zafar.

## 45 MEDIA

Since unification, efforts have been underway to upgrade the country's telecommunications infrastructure. Two-way radio links Yemen directly with Cairo and Rome. Telephone and telegraph facilities are available in major cities, and a modern dial telephone system has been installed in Sana, Ta'izz, and Al-Hudaydah. There were about 291,359 mainline telephones in 1999. In 2000, there were an additional 32,042 cellular phones in use.

The government operates several radio stations and two television networks, one of them partly commercial. As of 1999, there were 4 AM and 1 FM station and 7 television broadcast stations. In 2000, Yemen had 65 radios and 283 television sets for every 1,000 people. In 2001, there were 14,000 Internet subscribers.

In 2002 there were three daily newspapers: *Al-Thawrah* (circulation 110,000), published in Sana; *Al-Jumburiyah* (100,000), in Ta'izz; and *Ar-Rabi Ashar Min Uktubar* (20,000), published in Aden. The English-language weekly, *Yemen Times*, has a circulation of 20,000.

The constitution restricts free expression. The relative freedom of the press established prior to the 1994 civil conflict has yet to be reestablished. The Ministry of Information owns or controls all media.

## 46 ORGANIZATIONS

The government has encouraged the formation of cooperatives, but private associations with political overtones are suspect. There are chambers of commerce in the major cities. The Federation of Yemen Chamber of Commerce and Industry is located in San'a.

National youth organizations include the Fattah Socialist Youth Union, the General Union of Yemeni Students, General Union of Yemeni Youth, Supreme Student Committee of the Yemen Arab Republic, and the Yemen Scout Association. The Yemeni Federation of Women's Organizations is based at San'a University. The Red Crescent Society is active in the country.

## 47 TOURISM, TRAVEL, AND RECREATION

Tourists can visit historic and religious sites (such as the Ghumdau Palace and the Great Mosque in Sana) and exotic markets, and enjoy scenic areas including the Red Sea coast. Passports and visas are required by foreign visitors. Vaccination against yellow fever and cholera is recommended.

In 2000, there were 72,836 tourist arrivals and receipts totaled \$76 million. There were 10,440 hotel rooms with 26,010 bed-places.

According to the 2002 United States government estimates, the cost of staying in Sanaa is approximately \$215 per day. Elsewhere in the country, travel costs are less expensive.

## 48 FAMOUS YEMENIS

Imam Yahya ibn Muhammad Hamid ad-Din (1869?–1948) ruled during the period when Yemen established its independence; he was assassinated during an uprising. 'Ali 'Abdallah Salih (b.1942) became president of the YAR in 1978, ending a period of upheaval in which his two immediate predecessors were assassinated. Field Marshal 'Abdallah as-Sallal (1920–94) was the first president of the YAR and held power from 1962 until a coup ousted him in 1967. 'Ali Nasir Muhammad al-Hasani (b.1940?) was prime minister of the PDYR in 1980 and president from 1980 to 1986. Haydar Abu Bakr al-'Attas (b.1939) was prime minister of the PDYR during 1985–86.

#### 49 DEPENDENCIES

Yemen 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*.

- Adélie Land—*Asia*: French Pacific Dependencies:  
French Southern and Antarctic Territories
- Afars and the Issas, Territory of the—*Africa*: Djibouti
- Afghanistan—*Asia*
- Albania—*Europe*
- Algeria—*Africa*
- American Samoa—*Asia*: US Pacific Dependencies
- Andaman Islands—*Asia*: India
- Andorra—*Europe*
- Angola—*Africa*
- Anguilla—*Americas*: UK American Dependencies:  
Leeward Islands
- Antarctica—*United Nations*: Polar Regions
- Antigua and Barbuda—*Americas*
- Arctic—*United Nations*: Polar Regions
- Argentina—*Americas*
- Armenia—*Europe*
- Aruba—*Americas*: Netherlands American Dependencies:  
Aruba
- Ashmore and Cartier Islands—*Asia*: Australia
- Australia—*Asia*
- Austria—*Europe*
- Azerbaijan—*Asia*
- Azores—*Europe*: Portugal
- Bahamas, The—*Americas*
- Bahrain—*Asia*
- Bangladesh—*Asia*
- Barbados—*Americas*
- Basutoland—*Africa*: Lesotho
- Bechuanaland—*Africa*: Botswana
- Belarus—*Europe*
- Belau—*Asia*: Palau
- Belgium—*Europe*
- Belize—*Americas*
- Benin—*Africa*
- Bermuda—*Americas*: UK American Dependencies
- Bhutan—*Asia*
- Bolivia—*Americas*
- Bonin Islands—*Asia*: Japan (Ogasawara Islands)
- Borneo, North—*Asia*: Malaysia
- Bosnia and Herzegovina—*Europe*
- Botswana—*Africa*
- Bouvet Island—*Europe*: Norway
- Brazil—*Americas*
- British Antarctic Territory—*Americas*: UK  
American Dependencies
- British Guiana—*Americas*: Guyana
- British Honduras—*Americas*: Belize
- British Indian Ocean Territory—*Africa*: UK  
African Dependencies
- British Virgin Islands—*Americas*: UK American Dependencies
- Brunei Darussalam—*Asia*
- Bulgaria—*Europe*
- Burkina Faso—*Africa*
- Burma—*Asia*: Myanmar
- Burundi—*Africa*
- Caicos Islands—*Americas*: UK American Dependencies
- Cambodia—*Asia*
- Cameroon—*Africa*
- Canada—*Americas*
- Canary Islands—*Europe*: Spain
- Cape Verde—*Africa*
- Caroline Islands—*Asia*: Federated States of Micronesia; Palau
- Carriacou—*Americas*: Grenada
- Cayman Islands—*Americas*: UK American Dependencies
- Central African Republic—*Africa*
- Ceuta—*Europe*: Spain
- Ceylon—*Asia*: Sri Lanka
- Chad—*Africa*
- Chile—*Americas*
- Chilean Antarctic Territory—*Americas*: Chile
- China—*Asia*
- Christmas Island (Indian Ocean)—*Asia*: Australia
- Christmas Island (Pacific Ocean)—*Asia*: Kiribati
- Cocos Islands—*Americas*: Costa Rica
- Cocos (Keeling) Islands—*Asia*: Australia
- Colombia—*Americas*
- Columbus, Archipelago of—*Americas*: Ecuador  
(Galapagos Islands)
- Comoros—*Africa*
- Congo—*Africa*
- Congo, Democratic Republic of (former Zaire)—*Africa*
- Cook Islands—*Asia*: New Zealand
- Coral Sea Islands—*Asia*: Australia
- Corn Islands—*Americas*: Nicaragua
- Costa Rica—*Americas*
- Côte d'Ivoire—*Africa*
- Croatia—*Europe*
- Cuba—*Americas*
- Curaçao—*Americas*: Netherlands American Dependencies:  
Netherlands Antilles
- Cyprus—*Asia*

- Czech Republic—*Europe*  
Czechoslovakia—*Europe*: Czech Republic; Slovakia
- Democratic Republic of Congo (former Zaire)—*Africa*  
Denmark—*Europe*  
Diego Garcia—*Africa*: UK African Dependencies:  
British Indian Ocean Territory  
Diego Ramirez Island—*Americas*: Chile  
Djibouti—*Africa*  
Dominica—*Americas*  
Dominican Republic—*Americas*  
Dubai—*Asia*: United Arab Emirates  
Dutch Guiana—*Americas*: Suriname
- Easter Island—*Americas*: Chile  
East Germany—*Europe*: German Democratic Republic  
East Timor—*Asia*  
Ecuador—*Americas*  
Egypt—*Africa*  
El Salvador—*Americas*  
England—*Europe*: United Kingdom  
Equatorial Guinea—*Africa*  
Eritrea—*Africa*  
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

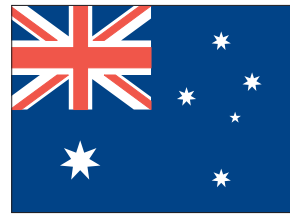
- San Marino—*Europe*  
São Tomé and Príncipe—*Africa*  
Sarawak—*Asia*: Malaysia  
Sa‘udi Arabia—*Asia*  
Scotland—*Europe*: United Kingdom  
Senegal—*Africa*  
Serbia and Montenegro—*Europe*  
Seychelles—*Africa*  
Sharjah—*Asia*: United Arab Emirates  
Sierra Leone—*Africa*  
Sikkim—*Asia*: India  
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 ASIA



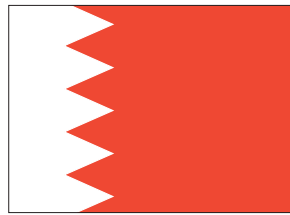
Afghanistan



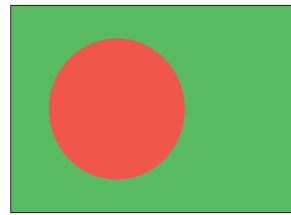
Australia



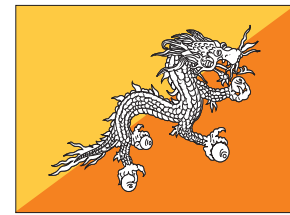
Azerbaijan



Bahrain



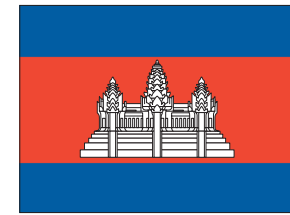
Bangladesh



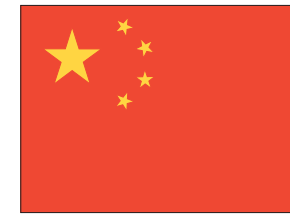
Bhutan



Brunei Darussalam



Cambodia



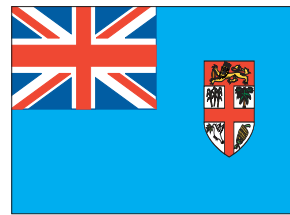
China



Cyprus



East Timor



Fiji



India



Indonesia



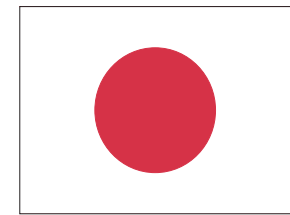
Iran



Iraq



Israel



Japan



Jordan



Kazakhstan



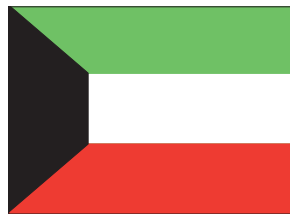
Kiribati



Korea, Democratic People's Republic of



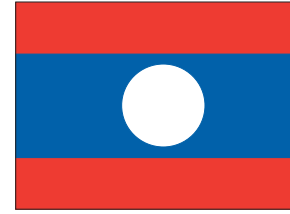
Korea, Republic of



Kuwait



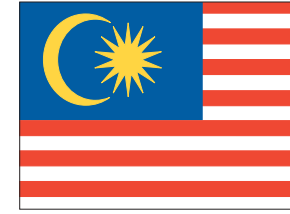
Kyrgyzstan



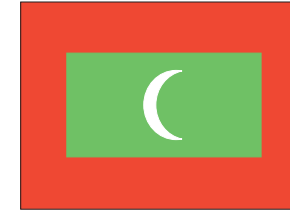
Lao People's Democratic Republic



Lebanon



Malaysia



Maldives



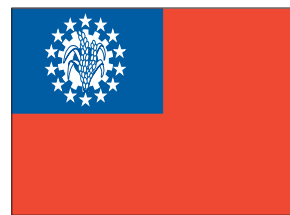
Marshall Islands



Micronesia, Federated States of



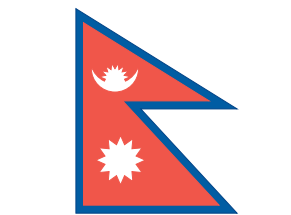
Mongolia



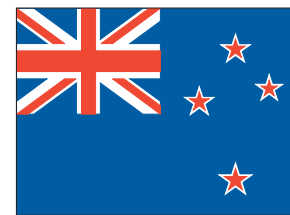
Myanmar



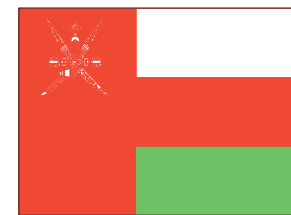
Nauru



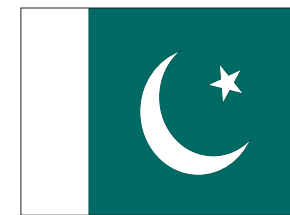
Nepal



New Zealand



Oman



Pakistan



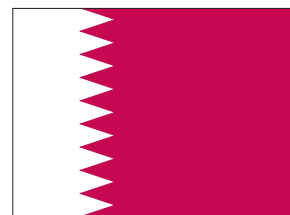
Palau



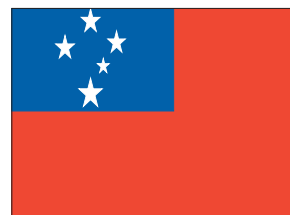
Papua New Guinea



Philippines



Qatar



Samoa



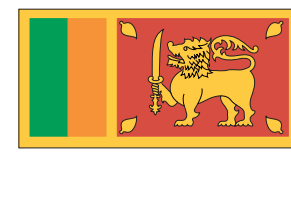
Sa'udi Arabia



Singapore



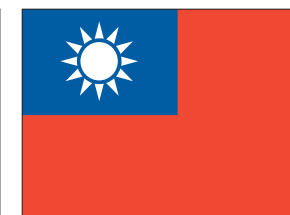
Solomon Islands



Sri Lanka



Syria



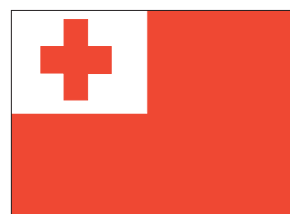
Taiwan



Tajikistan



Thailand



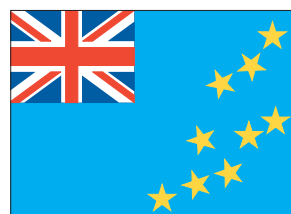
Tonga



Turkey



Turkmenistan



Tuvalu



United Arab Emirates



Uzbekistan



Vanuatu



Vietnam



Yemen